



Daily Report

Supplement

Central Eurasia

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Central Eurasia SUPPLEMENT

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Impasse Continues in Aerostan Negotiations

954F3165A Kazan IZVESTIYA TATARSTANA
in Russian 19 Aug 95 p 1

[Article by IZVESTIYA TATARSTANA correspondent Artem Karapetyan, under the "A Separate Question" rubric: "The Kandahar Incident: A Way Out Has Not Yet Been Found"]

[FBIS Translated Text] The question of the return of the IL-76 airplane belonging to the Kazan aviation company Aerostan and of the seven members of its crew who were seized in Kandahar by the Afghan opposition grouping Taleban remains unresolved.

We remind our readers that the airplane, with a cargo of military ammunition, including live cartridges, was seized by the Talebites on 3 August. An adviser to the Russian Embassy in Islamabad, Zamir Kabulov, was sent to negotiate with the Afghan oppositionists. A representative of the Aerostan company in Sharja (United Arab Emirates) also got involved in the progress of the negotiations.

The Talebites link the question of the return of the crew with their receipt of lists of several tens of thousands of Afghans who were allegedly interned over the course of military operations in this country and are located on the territory of the former USSR. The Russian Ministry of Foreign Affairs [MID] does not accept such conditions. In the words of a highly placed MID official (the information came through INTERFAX agency channels), "The Talebites' allegations about interned Afghans are a thoroughgoing myth. I think that even they themselves understand that very well." The diplomat did acknowledge that several Afghans are serving out sentences in Russia. "But these are criminals, former students, in the main, who studied at our institutions of higher learning and have been convicted of rapes and speculation on the territory of Russia." The diplomat also specified that "the demand that the 'mythical lists' of the interned be produced is on the part of the Talebites a condition only for the continuation of the negotiations, not for the handing over of the crew."

Zamir Kabulov reported that "the conversation in Kandahar is laborious. The Talebites' position is rigid, their demands are unrealistic, and there is no willingness to compromise."

Kabulov continues to shuttle between Kandahar and Sharja. The latter city is the "registration" place of the Emirate company Transavia, which works with the Kazan Aerostan on contract for charter transport.

As IZVESTIYA TATARSTANA has reported, the general director of the Aerostan company, Bronislav

Iskhakov, the contract with Transavia can in no way be viewed as a bootleg one.

"We have not violated a single clause of the international rules of air transport, and this has been acknowledged by experts," Mr. Iskhakov declared. "We have no violations to our name. The cargo transported by the airplane was authorized for transport by the International Civil Aviation Organization's rules of international air cargo transport...."

This is not the first time that Aerostan has cooperated with Transavia. Forty trips were made over the territory of Afghanistan, of which 14 were to Kandahar. However, this was the first time that the transport of cartridges, designated by the contract in the list of military ammunition, was carried out by the Kazan air transport personnel. And it was precisely the one that ended in the incident. Judging by everything, one may assume an information leak from Transavia to Kandahar. If of course, Taleban does not have its own ears in Kazan.

As IZVESTIYA TATARSTANA has already reported, one Russian MID official told the INTERFAX agency that the Kazan company "knew about the MID recommendation not to use the air space over Afghanistan." The diplomat believes that Aerostan ignored this recommendation in the hopes of making money on a profitable contract. There have been no Kazan commentaries to this announcement.

According to information received from various channels, the plane crew is relatively safe and at the present moment is interned in the governor's "guest house" in Kandahar. The health of the crew members is normal, if one does not count the high blood pressure of flight engineer Viktor Ryazanov, who has been given medical assistance. The fliers are supplied with food and books from Sharja. All of them are from Kazan, and Aerostan's management is keeping up constant contact with their families. However, the director of the company declined to divulge the names of the crew members. He believes that at the present moment any information about the Kandahar incident in the mass media could harm the progress of the negotiations. The Afghan side reacts nervously to any information connected with this matter.

According to IZVESTIYA TATARSTANA's information, Tatar leadership channels and Muslim religious figures have become involved in the resolution of the "Kandahar knot."

***U.S. Senate Hearings on Nuclear Terrorism Noted**
95UM0600A Moscow KRASNAYA ZVEZDA
in Russian 24 Aug 95 p 3

[News release: "United States Fears Nuclear Terrorism"]

[FBIS Translated Text] Washington, 23 August, (ITAR-TASS)—"Americans have every reason to anticipate acts of nuclear terrorism before the end of the current decade, directed at American targets." This was the alarming observation voiced by Senator Richard Lugar (Republican of Indiana) at recent hearings held by one of the subcommittees of the Senate Foreign Affairs Committee. In his opinion the leakage of fissionable material and even ammunition outside of Russia may have extremely serious consequences for the national security of the United States.

The threat of a spread of nuclear and other weapons of mass destruction from the territory of the former USSR "is a matter of some concern from the viewpoint of our national security," it is noted in the declaration of Senator Sam Nunn (Democrat of Georgia), which was made public at the hearings.

David Osias, CIA national intelligence officer for strategic programs, who appeared at the hearings, noted that greatest concern is caused by the possibility of nuclear armaments or fissionable material ending up in Iran or Iraq. "If one of these countries or a terrorist group get their hands on one or several types of ammunition, they could hinder the political or military operations of the United States, threaten U.S. forces or allied forces, and even launch an attack on them," he continued.

Today, that expert believes, the Ministry of Defense of Russia and the General Staff are on the whole continuing to exercise effective control over the arsenal (not in accordance with standards adopted in the United States, however) with the aid of multiple-element systems of technical and physical protection, and also through rigid central control of the launching procedure. According to David Osias, in the last two years "over 100 reports" have been received through intelligence channels and from the mass media regarding possible theft of nuclear ammunition and their components. Up to now, however, these reports "have proven to be unsubstantiated and unreliable."

***Report on Arrest of 'Civil Accord Congress'
Vice-President**

954F3204A Moscow OBSHCAYA GAZETA
in Russian 27 Jul 95 No 30, -2 Aug 95 p 7

[Article by Maksim Glikin: "Illicit Citizenship: The
New Popular Commodity in the Russian Black Market"]

[FBIS Translated Text]

Close to Bribery

On 24 March this year personnel from the North Eastern District Economic Crime Directorate (along with their colleagues from the Main Economic Crime Directorate and the Ministry of Internal Affairs) arrested Georgiy Trapeznikov, one of the leaders of two public organizations with the declared goal of "assisting fellow-countrymen abroad," on suspicion of accepting a bribe of 46 million. Trapeznikov is the president of the first of these organizations, called the International Fund for Russian-Hellenic Spiritual Unity, and the vice president of the second, the so-called Civil Accord Congress. The inconsequential story of this bribe would not warrant the reader's attention if it were not for one fact—namely, that the congress is headed (jointly) by Mr. Mikitayev, the chairman of the RF Presidential Commission on Citizenship.

Trapeznikov, his colleague, was expecting to receive this sum from the "Margo" firm, with which the international fund has an extremely complicated economic relationship. The preparations for the next meeting of the Civil Accord Congress were under way at that time. It had been planned as a grand affair (2,000 people had been invited to attend the gathering in the Hall of Columns, which would include a free lunch). These preparations were interrupted, however. According to a staff member of the RF presidential administration who preferred to remain anonymous, a financing request for state funds to cover the event had already been drafted and delivered to the president's desk, but Boris Niko-layevich had refused to sign it.

According to the investigators, Mr. Mikitayev, the president of the congress, then asked his deputy, Mr. Trapeznikov, to seek the funds elsewhere. You already know where he found them. As a result, the congress was held in a much less luxurious atmosphere, on the premises of the previously mentioned Fund for Russian-Hellenic Unity. It is unlikely that Trapeznikov would have secured the money and the premises for the congress for absolutely unselfish reasons. He apparently had a substantial incentive to do this.

Part of the Chain of Extortion

The investigators' findings could shed some light on this. They included 15 applications for citizenship, addressed to the president of Russia and discovered by undercover agents in Trapeznikov's office. According to the established procedure, these applications should have been submitted to the Citizenship Commission—i.e., to Mr. Mikitayev—by consulates and internal affairs agencies, and certainly not by Mr. Trapeznikov's organization. The legal department of OBSHCAYA GAZETA has xerox copies of 2 of the 15 applications. We have to ask how these applications got into the desk of the arrested president of the fund.

We also have another interesting document. It is an RF presidential edict "On the Granting of Citizenship in the Russian Federation." The edict approves the citizenship applications of 34 residents of the near abroad. Of these, 21 were born in Georgia and live there now (or, more precisely, in Abkhazia, judging by their names and other data), and another applicant was born in Georgia and lives in Greece. According to the Law on Citizenship, eligibility is usually confined to people who were born in Russia or have lived in Russia for at least five years. Of course, there are certain exceptions, but this seems to be an inordinate number of exceptions for a single edict. Furthermore, why were native Abkhazi and Greeks granted citizenship without any waiting period when thousands of native Russians are still waiting for the privilege of recovering their Russian citizenship? (Incidentally, most of the humanitarian programs of the Fund for Russian-Hellenic Spiritual Unity were connected precisely with Abkhazia).

The Commission on Human Rights has received several letters of complaint citing the same figure of 500 dollars. The authors of the letters had made unsuccessful attempts to acquire citizenship without a waiting period. Most of the complaints appear to have been filed after a certain link of the chain of middlemen had disappeared, and people who had already paid the fee were left without the promised citizenship. This period coincides precisely with the arrest of Mr. Trapeznikov.

If we multiply the "fee" by the number of new Russian citizens listed in the edict and convert this amount into rubles at the March rate of exchange, we arrive at a figure of...50 million rubles. This is exactly the amount Trapeznikov was demanding from the "Margo" firm. The edict was drawn up at approximately the same time, because it was signed exactly a month after his arrest. If we assume that Mr. Trapeznikov was planning to give the money he extorted from "Margo" to the congress not for unselfish reasons, but for a service of equal value

(tit for tat), the logical chain of circumstances acquires distinct outlines....

The Master Bloc-BUILDER

So, what happened to our aggressive combatant, Mr. Mikitayev? His colleague Trapeznikov is under investigation, but he joined the election race in high spirits. His new creation is the election bloc known as the "Inter-Ethnic Union."

The bloc's architects expect the Associated Koreans of Russia, the United Germans of Russia, the Associated Women of the Caucasus, the Fund for the Development of Muslim National Groups, and other ethnic associations to join the bloc along with the notorious congress. The objectives of the bloc are still the same—the support of fellow-countrymen abroad. We wonder whether the official duties of Mr. Mikitayev's subordinates will include the organization of his campaign, in the same way that the preparations for the gatherings of the strictly non-governmental Civil Accord Congress were once part of their job (OBSSHCHAYA GAZETA has the operational plan of Mikitayev's staff for one of these gatherings). Apparently, they are not overloaded with work for the president....

A press release issued by Mikitayev's bloc says that additional information on election matters can be obtained by telephone:

206-47-87; 206-25-17.

We learned that these are the telephone numbers of the presidential administration's citizenship office. How rotten! But so what? Mr. Mikitayev's campaign is a hallowed cause. The people who want citizenship will just have to wait.

*Background of 'Caucasus War' Explored

954F3245A Moscow *SEGODNYA* in Russian
23 Aug 95 p 5

[Article by Ramazan Abdulatipov, deputy chairman of the RF Federation Council: "Who Began the Caucasus War?"]

[FBIS Translated Text] Ramazan Gadzhimuradovich Abdulatipov was born in the Dagestan village of Gerguta in 1946. He graduated from the University of Dagestan as a doctor of philosophical sciences. He headed a plant first aid station, worked in a party rayon committee, he was a department head at the Murmansk Maritime Engineering School, and afterward head of the philosophy department at the Dagestan Pedagogical Institute. In 1988 he was in charge of the analysis and forecasting sector of the Nationality Relations Department of the CPSU Cen-

tral Committee. He has been chairman of the Russian Federation Supreme Soviet Council of Nationalities. In 1993 and 1994 he was chairman of the RF State Committee on Federation and Nationality Affairs. He has been deputy chairman of the RF Federation Council since 1994. He is the chairman of the movement "Sotvorchestvo narodov vo imya zhizni" [Collaboration of Peoples in the Name of Life] (Senezhskiy forum).

The worst ignorance is the kind that is repeated for centuries. But the strongest friendship between peoples is the kind that is developed for centuries. These conflicting thoughts occur when you observe what is taking place in the Caucasus—in "the country of love," as the great Lev Nikolayevich Tolstoy called it.

Love and hostility, war and cooperation—the peoples of the Caucasus and Russia have crossed passes and gorges in seeking to meet each other halfway, in seeking their destiny. The Caucasus is inseparable from Russia, just as Russia is inseparable from the Caucasus. These are opposites which complement each other. While for Russians the Caucasus was really "the country of love," Russia was the country of hopes for peoples of the Caucasus. And our faith in each other, in our present and our future, depends on the correlation of love and hope. But we do not have enough love, or faith, or hope today. Although we are close in the spirit of civilization, we have suddenly begun to move away from each other. We both have become infatuated with ourselves, intoxicated by the real or imaginary freedom, and we have forgotten about our neighbors, our relatives, and our friends and how they feel. What is taking place is strange, and what is happening and will continue to happen will be terrible unless we heed the voice of reason. If we turn the outlying regions of Russia into a "barbarous field" of war and conflict.

First of all, I want to tell those who attribute the history of relations between peoples of the North Caucasus and Russia to the Caucasian War of the 19th century that the peoples of the Caucasus were part of Russia long before this. And the difficult relationships were primarily the result of a not very consistent policy by the tsarist autocracy. In 1557, the Kabardinians and other Adyge people became part of Russia. From 1614 to 1635, Dagestan lands were becoming part of Russia. But the Caucasian peoples found themselves in the midst of continuing colonial claims by three powers: Iran, Turkey, and Russia. And each one of them was thinking more about their own geopolitical interests than about the fate of the peoples in this region. They needed this strategically important and rich region, but not the

peoples. The Caucasus traditionally has been the most important area of relations between Europe and Asia and the Caspian Sea and the Black Sea, for the trade and military and political relationships of a number of states have historically crossed the Caspian coastline. The active influence of Iran under the shahs and Ottoman Turkey never reached farther than individual possessions on the plain—the mountain dwellers were never actually subordinated to either Iran or Turkey. At the same time, the Caucasus' orientation to Russia was constant, although Russia was considerably removed from it. But in the 18th century, Russia drew closer to the Caucasus owing to the settlement of Cossack migrants here. Runaway Russian peasants, Cossacks, and handicraft workers became a basic part of this population.

The annexation of Osetia and the Georgian kingdom marked a new and more logical stage in Russia's policy in the Caucasus. The Georgiyevsk Treaty marked Russia's final option with respect to the Caucasus. At roughly the same time, Chechnya and Ingushetia voluntarily became part of Russia. Shamkhal Tarkovskiy and the Kazikumukh, Avar and Derbent khans and others expressed their readiness to sign the usual oath of citizenship in Russia. I say "usual" for such acts were performed repeatedly when there were not very definite commitments by the sides to implement them. The Ottoman Empire wanted to take advantage of the movement against Russia which flared up in Chechnya in 1785, led by Sheikh Mansur, who declared himself an imam. But Sheikh Mansur was not supported by Uma, the Avar khan, and a number of other Dagestan rulers, who pointed out the inadvisability of a war against Russia. This attests to the strategically correct orientation toward cooperation with Russia by the peoples of Dagestan.

The mountain people of the Caucasus did not rise up in the struggle against Russia in the name of the Turkish sultan in the war of 1787-1791, either, although Iran and Turkey, with the active support of Britain, did everything to promote this. At this time, Russia was continuously distracted by more important affairs in Europe. But in the Caucasus, the tsarist autocracy had begun supporting, as a rule, only the Orthodox population of Georgia, Armenia, and North Osetia. Russia warned against attempts to destroy "Christian properties" in the Caucasus. There was some truth in this, although the mountain peoples of the Caucasus seldom were oriented toward religious dogmas in their struggle. They hoped for sincere cooperation with Russia and they were free of prejudices.

Russia's strategic role in the Caucasus was substantially reinforced when construction was begun on the Geor-

gian Military Road. The mountain territories and societies of the Caucasus, which were very isolated at that time and fearful of harsh and cruel interference in their affairs by Iran and Turkey, oriented themselves toward Russia, not for the same harsh and forceful intervention, but for protection from Iran and Turkey. And Russia became more and more aware of the necessity not only for formal annexation, but unification of the Caucasian peoples in a distinctive "federation," as directed by Alexander I—to establish "between the khans and mountain rulers a strong union and friendly accord, under my supreme patronage, for their common welfare and that of their peoples."

In September 1802, many of the Caucasian rulers assembled in Georgiyevsk, where a joint agreement was signed at the end of the year. In addition to loyalty to Russia, the treaty confirmed the necessity of ending internecine dissension and resolving disputes amicably "in accordance with common laws." And most importantly, to "take up arms unanimously" against attacks by the shahs. The Georgiyevsk Treaty actually strengthened the "federation" of Caucasian peoples under Russia's protection. Numerous Dagestan rulers associated themselves with the treaty. In April 1803, Sultan Ahmed Khan swore allegiance to Russia in the principal city of the Avar Khanate, Khunzakh. The positions of the Caucasus' mountain rulers were reaffirmed soon after when the shah's government started a war with hope of support from England and peoples of the Caucasus. Most of the mountain people not only did not support the shah, but began a new campaign to take the oath of Russian citizenship. In the Russo-Turkish war, a substantial number of Dagestanis, Abkhaz, Azerbaijanis, Osetians, and Georgians fought on Russia's side. And against the background of this enthusiasm, inconsistency in the policy of the tsarist administration reappeared when the interests of the local population were given minimal attention. This was in addition to the extreme confusion in relations within the Caucasus itself, as well as the no less confusing claims by Iran, Turkey, England, and France. Of course, a great deal depended on the clarity of the position taken by Russia, which lacked the forces and wisdom to conduct a state policy in both the West and the East.

For some reason, the opinion that the mountain peoples' war under Shamil's leadership is the only historic position taken by the Caucasus' mountain peoples, primarily of Dagestan and Chechnya, in relations with Russia has become firmly established in the public's consciousness. Moreover, the mass media are drawing all sorts of absolutely unwarranted parallels between the current war in Chechnya and the mountain peoples' struggle for freedom in the 19th century, especially

between the individuals involved in these wars. This is ignorance of history. The nearly 1,000-year history attests to the fact that the mountain peoples of the Caucasus sought citizenship in Russia, most often voluntarily, and to live in peace with Russia. And the tsarist administration of Russia permitted neglect of the mountain peoples' expectations, lack of understanding of their interests, traditions, and culture, and at times direct betrayal of the Caucasians' aspirations as well.

Only at the beginning of the 19th century did Russia show its firm orientation with respect to peoples of the Caucasus, and then mainly the Orthodox Christian parts of it. Although, I stress, the Muslim section of the population was seldom oriented toward union with Turkey or Iran. Moreover, they constantly fought with them. Although it would appear that there were considerable prerequisites for such orientations, especially as extensive organizational and financial efforts to bring this about were made in the region by the administrations of the shah and the sultan.

The mountain people of the Caucasus have never been fanatical Muslims. Islam has always been adapted to local customs and traditions here. Some of the mountain people professed to be Christians somewhere even before the sixth or seventh centuries.

The tsarist administration actually was turned into a military and political structure strictly for colonization which created intolerable conditions for its citizens, without taking their feelings into account. It was not the striving to break relations with Russia, but the insult to human and national dignity, a twofold burden, which was the reason for the mass appearances by the mountain people. Even during the war, Shamil did not raise the question of being a part of Russia; he spoke only of dignity and independence. This question was not asked by the rulers of many Caucasian and Dagestan lands, either. For this reason, the origin of the idea that the mountain people of the Caucasus, primarily Dagestan, have sought to break relations with Russia since early times is unclear. Why would they break them if they voluntarily acquired Russian citizenship? How can we speak of their being part of Turkey or Iran if the Caucasian peoples were constantly in a state of war with them! Ideas such as these are more like espionage provocations spread in the Caucasus by agents of the shah and the sultan. Experience has shown just the opposite. I direct your attention again to the fact that the Gulistan Peace Treaty, in which the shah recognized Dagestan and the Karabakh, Gyandzh, Sheki, Irvan, Derbent, and other khanates to be part of Russia, was signed not long before the Caucasus War. Corresponding agreements were concluded with Turkey as well. Relations between

Iran, Turkey, and Russia subjected the peoples of the Caucasus to danger and endless conflicts. None of the shahs, sultans, or tsars had anything to do with their destiny. They needed the Caucasus for its strategic importance and attractiveness, but not its distinctive peoples. It was precisely dissatisfaction with this kind of policy and the harsh treatment by tsarist officials that led to Caucasians' speeches against the government, primarily by Muslim sections of the population who were persecuted the most.

The celebrated hero of the Patriotic War, Yermolov, was a strong and relentless champion of this policy. Forced propagation of Cossack land ownership, expulsion of mountain people from distant fertile pastures, harsh military and political methods in managing the affairs of the local population, mockery of local customs and traditions, endless punitive expeditions, and the extortion and thefts of livestock—all this forced the people to revolt and fight.

We know that Yermolov, a hero in the war against Napoleon, was himself more than a Bonapartist. Being in the Caucasus, he started to carry out his ideas of a military dictatorship, and the mountain people became the victims. Yermolov planned their complete annihilation, especially the Muslims. Before the war with Shamil, Yermolov eliminated more mountain people than the number that were killed in the 25-year war. Even before the beginning of military actions, he brought the number of Russian troops up 40,000 in 1816 to 250,000 in 1827. Researchers record the dictatorial and even sadistic ways of the general in annihilating mountain people who often were innocent. The bloodier the war against the few mountain people, the more chances he had to receive reinforcements and the greater his celebrity and popularity. This was a war thrust upon the mountain people, who were not only surrounded by Russia on all sides, but they were citizens as well. It was precisely because of Yermolov's tireless activity, not the mountain people, that the war in the Caucasus was prepared. The mountain peasants were left with no choice—death, or battle with the authorities—with their authorities and the tsarists. Against this background, of course, the clergy tried to kindle religious fanaticism. Especially as the tsarist administration officials themselves gave cause for this by carrying on a relentless struggle against Islam, forcing many to adopt Christianity by dispensing all kinds of privileges for this. Islam was not the reason, not the cause, but the consequence, as if it were a banner of struggle for social and national justice to which the mountain people had always been sensitive. All the same, let us point out that even though they lived under intolerable conditions, only certain sections of the Caucasian population took part in this war. And Shamil did

not succeed in uniting the Caucasian peoples around him, either. Shamil spent 70 percent of his time and force on the battle with his enemies within Dagestan. It must be said that the Caucasus was too fragmented and isolated at that time for an all-Caucasus war with Russia.

In 1825, Alexander I issued direct orders to "stop all kinds of revenge against unarmed persons and women and children," which attests to the scale of Yermolov's inhumane actions in the Caucasus. But these orders were not carried out. Being occupied with punitive expeditions against the mountain people, Yermolov actually neglected the question of preparing the borders to repel aggression by the shah of Iran.

A very important factor should be stressed here. When Yermolov was occupied with the war against Iran, none of the Caucasian peoples revolted in the Russian forces' rear area. They began to revolt when Yermolov and other military leaders were not engaged in any matters but organizing the oppression and annihilation of the mountain people. And even Yermolov himself reported in 1826 that he "stayed in the Dagestan region, which is bellicose and heavily populated, in complete calm, testimony that it does not want any new rulers but Russia." And how dishonest it was, against this historical background, to write that the cause of the Caucasus War was supposedly the reactionary aggressiveness of the mountain people. For some reason they forget in this case that the territory where the war took place is quite far from historical Russia. It turns out that the mountain people did not even have the right to resist violence and outrages—the terrible logic of the Russian "patriots." There are many such authors, beginning with the Beriia agent Borisov and ending with Nevzorov, an agent for some unknown person.

Not the Caucasians and not the Russians, but the military-political regime of the Caucasian administration (the tsarists and locals) were the principal organizers of the Caucasus War. This is clear to any unbiased historian. Any insubordination shown to the khans and beys, not to mention officials of the administration, were automatically considered a "rebellion," and then the military-political command thought that it was "high time for military responses, celebrated exploits, and lavish rewards." Widespread violence ensued in all the villages and settlements. In 1829, Nikolay I issued a directive to the commander in chief in the Caucasus: "...suppression of the mountain peoples permanently or extermination of the rebels." It is difficult to speak here in the spirit of previous demagogic discourses about the hand of friendship that was extended. The policy was different, and it led to the harshest war for peoples small in numbers. And with regard to concoctions about

Shamil's loyalty to the shah or the sultan, we can quote his words, spoken to Prince Orbeliani: "The sultan and those around him are worse than infidels... If they were to fall into my hands, I would chop them all into 24 pieces, beginning with the sultan." The tsarist autocracy had all the conditions for peacefully integrating Dagestan and all of the Caucasus into Russia. The mountain people had nowhere to go, either economically or politically. A peaceful alternative in the development of events was missed because of mistakes by politicians and the ambitions of generals. And Russia was dragged into the longest war of the 19th century. A tragic blow was dealt to peoples of the Caucasus and Russia and the prospects for their relations. Hundreds of thousands of mountain people expelled to Turkey became good soldiers in the struggle against Russia. Echoes of this are sometimes heard to this day. It was during this war that Islam reinforced its positions in Dagestan and Chechnya once and for all, developing its warlike nature in relations with Russia.

Long before the Caucasus War, traditions and entire layers of business and cultural cooperation were established between the Russian population and the mountain peoples. The Cossacks and mountain people developed customs of friendship, and they took pride in their friendship, passing it on to their children as a sacred behest from generation to generation. Moreover, there are many examples of the friendliest relations, even between the mountain people and the soldiers. The despotism of the Caucasian military and local administration disturbed not only the mountain people, but the Russian intelligentsia and many soldiers and generals as well. In order to comprehend this, one should read Pushkin, Lermontov, Tolstoy, Bestuzhev-Marlinskiy, and many others. "These fellows are so annoying that I am ready to kiss someone else," wrote Bestuzhev when he was in Dagestan.

We can argue a great deal about the causes and consequences of the Caucasian War, but Prokopenko, an ordinary soldier of the time, expressed it better than all the scientists: "The mountain people are the most heroic people. Yes, and it must be said: let them protect their homeland, their cozy little home. To tell the truth, it is their truth here, not ours." This is about the causes. But the consequences are also at hand. On the negative level, the war in Chechnya, which attests to the fact that "the Chechens cannot forget, but Moscow cannot remember"—the lessons of history. The causes of the current war also can be attributed to the mistakes of politicians and the ambitions of generals. The peoples are suffering, and Russia is suffering. But our destiny, traced in history, is economic and cultural integration, cooperation and work together to rebuild the

motherland. The Caucasus has become part of Russia, just as Russia has become part of the Caucasus. It is important to understand this and not repeat the tragic

errors of history. But this is a subject for another discussion.

***Trade Growing Between Russia, France's Alsace Region**

954E1320D Moscow *FINANSOVYYE IZVESTIYA*
in Russian 22 Aug 95 p 8

[Report by Yuriy Kovalenko, *IZVESTIYA* correspondent in France: "Russia Is Helping the French Find Work"]

[FBIS Translated Text] Cooperation with individual regions is being advanced to the forefront in Russian-French business relationships. Alsace business circles, according to the newspaper *L'ECHO*, are undertaking a wide-ranging commercial invasion of Russia which helps to combat unemployment in France itself.

Unemployed young persons—graduate specialists to establish contacts and search for potential clients—have been sent to Moscow. These contacts are already producing the first results.

For 3 years Paul (Chen), a representative of the Alsace Development Agency in the city of Colmar, organized trips to Russia for over 100 Alsace entrepreneurs in an effort to convince them of the timeliness of establishing business contacts with our country.

Work in this direction is producing very promising results. After 20 trips by local businessmen, commodity turnover between Alsace and Russia increased sharply. Over a 2-year period, exports to Russia increased from 90 million to 600 million francs. Small and medium-sized enterprises from the banks of the Rhine gladly send their envoys to Russia: a 5-day visit to Moscow to organize business meetings costs about 8,000 francs.

Thanks to this trip, the "Telmat" firm from the Alsace town of Soultz, which produces data processing equipment, recently sent its hardware to the Moscow State University.

The EACM group from Malhouse, which specializes in electronic protection equipment, will provide the Institut Information Center with its equipment. Several textile enterprises—"Texunion," "Sec Velcorex," and ("Adler-Lepavec")—are today reaping the fruits of their participation in the second international fashion trade fair in Moscow, held in February 1995. The "Continental Biscuit" company will be sending three trucks of its products to the Russian capital every week from now on.

This is not taking place without the help of the young graduate specialists, who are unemployed. Each year 15 young persons are sent to Russia by the thirty small and medium-sized enterprises in Alsace to search for promising commercial ties.

Beginning in April, one of these young persons found over 150 contacts for enterprises which he represented, ("Sodoca") and ("Pak Industrie") in particular.

Nearly all the probationers found work for themselves, including at enterprises for which they worked in Moscow.

***Prospects for Trade Relations Between Russia, China Examined**

954E1321A Moscow *DELOVOY MIR* in Russian
22 Aug 95 p 7

[Commentary prepared for *DELOVOY MIR* by (Geng Xunca), counselor of the PRC embassy in the Russian Federation: "There Are Prospects for Cooperation Between China and Russia"]

[FBIS Translated Text] A high-level trade delegation from China headed by (Sun Zheniue), the deputy minister of foreign trade and economic cooperation, has made a visit to Russia. Before his departure from Beijing, the head of the delegation stated: "We will concentrate attention mainly on the implementation of agreements on cooperation concluded during the recent visit to Moscow by Li Peng, premier of the PRC State Council."

In an article specially prepared for *DELOVOY MIR*, (Geng Xunca), counselor of the PRC embassy in Russia for trade and economic affairs, familiarizes our readers with the Chinese side's view of the prospects for trade and economic cooperation.

The Chinese Government is devoting considerable attention to the development of trade and economic ties with Russia. With the establishment of diplomatic relations between our countries at the end of 1991, the sides signed a package of important documents which established the legal development of trade and economic relations between the two states. Visits to the Russian Federation by Chairman Jiang Zemin and Premier of the State Council Li Peng and visits to the PRC by Russian Federation President B. Yeltsin and Chairman of the Government V. Chernomyrdin in recent years gave new vitality to their development. In the joint communique signed in June 1995 during the visit by Premier Li Peng, the importance of steadily strengthening mutually advantageous cooperation in the field of foreign economic relations and trade was reemphasized and the desire was expressed that efforts be made to ensure that cooperation between China and Russia in the field of economics and trade and science and technology are completely in accord with the economic potentials of both countries. Recently Li Lanqing, vice premier of the PRC State Council, visited Russia as the head of

a government delegation and cochaired, together with Oleg Davydov, deputy chairman of the RF government, the third session of the Sino-Russian Commission on Trade and Economics and Scientific and Technical Cooperation. The sides discussed the cooperation that has developed between the two countries in recent years in economics and trade and science and technology, they considered the problems that exist, and they outlined ways to resolve them. It is gratifying to realize that, as Mr. Davydov noted, overall encouragement and development of trade and economic relations between the Russian Federation and the PRC is Russia's state policy.

Bilateral trade has received new impetus in such a favorable situation. China is sending foodstuffs, frozen meat, and commodities in everyday demand to Russia. Russia is sending China power engineering equipment, means of transportation, metals, chemical fertilizers, chemicals, and so forth. At present, over 1,000 Chinese enterprises operating with basic and mixed capital are registered in Russia. The exportation of Chinese manpower to Russia has been developed, and Chinese workers are employed in construction detachments and in raising agricultural crops. Power engineering is one of the important directions in the two countries' trade and economic cooperation. Russia has been sending China equipment to build a TES [thermal electric power station] since the 1980's on the basis of an intergovernmental agreement; both countries have reached an agreement on construction of an atomic power station. A consortium has already been organized in Russia to build the major hydrosystem "Three Gorges." The sides are also discussing construction of a gas pipeline from Irkutsk to China. In the future, we will be continuing to strengthen our cooperation in power engineering, and in addition, to develop interaction in the field of aviation and space, bio-engineering, machinebuilding, the development and utilization of high and new technologies, and in other fields.

Despite the favorable trend, there are problems as well. For example, the trade imbalance. A large negative balance for the Chinese side has taken shape in bilateral trade for several years in succession, which does not favor development of trade between the two countries. In this connection, we seek to encourage Russian enterprises to purchase Chinese commodities, which are valued in the Russian market. Incidentally, numerous high-quality goods turned out in China are selling very well in the markets of European countries and America. We are confident that they will satisfy Russian consumers as well.

As far as the prospects for further development of trade and economic cooperation between the two countries is

concerned, in our view it is necessary to shift the center of gravity from the traditional barter trade to settlements in SKV [convertible currency] in the shortest possible period of time. This is in accordance with international trade practices.

The Chinese Government consistently encourages its enterprises to develop trade with settlements in convertible currency by creating favorable conditions for this.

We also need to strengthen direct ties between major companies and enterprises in China and Russia.

The strengthening of long-term and stable direct ties established between powerful companies and enterprises with a good reputation in the production and foreign trade sphere of both countries is very important for increasing commodity turnover and raising the quality and level of cooperation.

During the third session of the Sino-Russian Commission on Trade and Economics and Scientific and Technical Cooperation, the Chinese company engaged in exporting and importing chemicals signed a contract with its Russian partners for the purchase of over 600,000 metric tons of chemical fertilizers. This is an example of cooperation between large, powerful enterprises with a good reputation. There was a time when we imported Russian fertilizers through Western countries. Russia imported consumer goods from Western countries. This is clearly abnormal. I believe that only the large companies and enterprises will establish long-range and stable direct ties between them; by organizing normal trade channels, they will be able not only to avoid such a situation, but reduce the risk in trade and investment and improve the effectiveness of cooperation as a whole.

It is extremely necessary to continue work to improve the legal and contractual bases for trade and economic cooperation and to improve the investment climate in each country.

The state's ability to attract foreign investments depends to a large extent on the conditions established for investors. It has been 16 years since China has pursued a policy of reforms and openness. During this time we have succeeded in bringing about an influx of reliable foreign capital investments. Experience shows that protection of investors' economic interests and respect for their legal rights are an important guarantee for attracting investments. In order to strengthen economic cooperation between states, they have to perfect domestic legislation on investments and a system of protection to serve as the basis for signing a bilateral agreement on protection of investments. Unfortunately, the Sino-Russian Intergovernmental Agreement on Encouragement and Mutual Protection of Investments has not

been signed yet, and the Agreement on Avoidance of Duplicate Taxation has not completed the adoption procedure. Work also needs to be speeded up to create a stable legal foundation for bilateral cooperation. Nevertheless, the Chinese side is hoping for improvement in the conditions for economic activity by its enterprises in Russia's territory within the limits stipulated by legislation and hoping for the provision of guarantees of the legal economic interests of these enterprises and the personal safety of personnel engaged in trade and economic activity.

The sides should strive to develop trade and economic relations in a spirit of constructive partnership.

Under the conditions of a market economy now, the enterprises in our countries may establish direct ties and develop trade and technical and economic cooperation. So that trade and economic relations between the two countries are in accordance with the relations of constructive partnership directed toward the 21st century called for in the Sino-Russian communique.

There is a Chinese saying: "A close neighbor is better than a distant relation." Let us try to enter the new century as good neighbors.

Spokesman Rejects Portrayal of Turkey

954F3196B Moscow ARGUMENTY I FAKTY
in Russian Aug 95 No 34, p 5

[Letter to the editors from Turkish Embassy's Press Attache Khasbi Akala, followed by editorial commentary: "Are the Rumors of a Russian-Turkish War Slightly Exaggerated?"]

[FBIS Translated Text] In response to A. Kondrashov's material "Is a New Russian-Turkish War Possible?" the editors received a letter from Mr. Khasbi Akala, press counselor of the Turkish embassy. This is what he writes:

"Although the authors put a question mark at the end of the title, it is obvious from the text of the article that he is not tormented by doubts: A war is quite realistic, and the aggressor in it is Turkey, whom Mr. Kondrashov without blinking an eye compared to Hitler's Germany. There are two main items of 'proof': Turkey's economic success, which enables it to strengthen its defense capabilities, and 'expansion into the Transcaucasus,' meaning penetration of it by 'jet-black-haired gentlemen from Istanbul'—spies, naturally.

"Following this logic, one can declare any state that has achieved economic success a potential aggressor. Something like this would not occur to any Turkish journalist even in his wildest imagination.

"Turkey is a democratic state with a developed parliamentary system. Just recently, the Great National Assembly of Turkey adopted 17 amendments to the Constitution, considerably expanding the rights and freedoms of citizens. Our government cannot start a war without notifying the supreme legislative body. And in our parliament there are no madmen who would vote for a war with Russia at a time when our leaders are talking about continuously developing bilateral relations.

"I realize that for a variety of reasons not everybody in Russia likes this. Apparently, this includes the author of the article. Otherwise, he would not play up the Chechen theme, spreading conjectures that the 'Republic of Ichkeria government' allegedly operates on the territory of the Turkish Republic of Northern Cyprus, that allegedly a hospital for Chechen commandos and a saboteurs school are about to open there, and that Dudayev and Basayev are welcomed as vacationers.

"I want to state firmly that all of this is conjectures, which the author did not even take the trouble to substantiate by real facts. For added credibility, he says that he learned all of this from military specialists on Turkey while 'standing at a border tower.' I certainly hope that it will not be these kinds of 'specialists' who are and will be defining the future of Russian-Turkish relations, and that the main course of relations will remain all-round development and strengthening of Russian-Turkish friendship and cooperation."

OUR COMMENTARY. When we put a question sign on the headline over our author's material, we thereby expressed doubt in the possibility of confrontation between our countries. Although a number of Russian politicians, including candidates for president, express concern over a sharp rise in the capabilities of the Turkish Armed Forces. According to the latest data, the third field army, deployed in the northeastern part of the country, is quickly modernizing. More than 20 brigades are deployed in peacetime in eastern Anatolia. Each has more than 60 tanks and about 100 guns. The Turkish fleet is expanding at an unheard-of rate. Today it comprises more than 200 ships and about 100 modern submarines. And this is considering that beginning 1 July of last year Turkey unilaterally changed the navigation regime in the Bosphorus and Dardanelles straits, in violation of the Montreux Convention—an international agreement that had been governing the straits zone's legal regime since 1936.

Now regarding "jet-black-haired gentlemen from Istanbul." According to Grigoriy Karasin, director of the Russian MFA [Ministry of Foreign Affairs] information and press department, the Russian MFA believes that explanations provided to it by Ankara regarding Iskhak

Kasan, the spy who worked in Chechnya for Turkish intelligence and was detained by FSB [Federal Security Service] officers, "do not appear convincing and exhaustive." Also valid is the information regarding the representation—not "government" (as the letter says)—of Chechnya on the territory of the so-called Turkish Republic of Northern Cyprus. It is headed by Said Ibragimov, former minister of transportation in Dudayev's cabinet. After publications in the world and Russian press, including ARGUMENTY I FAKTY, Dudayev regime's representatives are hurriedly folding their activities on the territory of Northern Cyprus.

Unquestionably, Turkey is not Russia's enemy. One gets the impression, however, that as time goes by, their interests begin to clash increasingly seriously. Especially in the Caucasus. Words of friendship are not enough. As to concrete actions in establishing mutually beneficial cooperation, we covered them in the past, and will always cover them in the future.

Potential for Conflict With Turkey Viewed

954F3196A Moscow ARGUMENTY I FAKTY
in Russian Jul 95 No 29, p 10

[Article by Aleksandr Kondrashov: "Is a New Russian-Turkish War Possible?"]

[FBIS Translated Text] We are already used to sensational statements by our politicians. But the words of Petr Romanov, chairman of the Federation Council's subcommission on defense issues, stunned me: "It will be with great difficulty, but Russia will climb out of the crisis, unless the Third World War interferes. The war in Chechnya resembles very much the Soviet-Finnish armed conflict of the winter of 1939-40. The same mass heroism of soldiers and commanders. The same ineptness of the high command. And most importantly, both wars showed the entire world the weakness of our military."

"Chechnya perhaps does resemble Mannerheim's Finland. But, in your opinion, who can claim the role of Hitler's Germany today?" I could not refrain from asking. The answer was brief: "Turkey."

I have to admit that at first I reacted skeptically to the words of one of the candidates for the Russian presidency. Petr Romanov does not at all resemble Zhirinovskiy. A serious defense sector professional, cleared for top-secret information—and suddenly he repeats the election campaign theses of his scandalous rival regarding a threat to Russia from the south.

How I Was Mistaken for a Spy

What does a regular Philistine know about Turkey? A Muslim country, with which Russia has frequently

been at war and has almost always won. The names of Suvorov and Kutuzov, Nakhimov and Ushakov immediately come to mind. How can it compete with the great Russia?...

Meanwhile, serious analysts are attentively studying the "Turkish economic miracle." In rate of growth, Turkey is far ahead of Russia. In the military area—the same picture: We are getting weaker, they—stronger. According to the data of the Russian General Staff, the current numeric strength of the Turkish Armed Forces is 598,000. Of that, 490,000 serve as ground troops. While our fleet disintegrates, the Turkish one grows in leaps and bounds.

The Turkish expansion is especially strong in the Transcaucasus. In Batumi, for example, as a counterintelligence officer of my acquaintance once joked, there is spy upon spy every corner. Most of them are jet-black-haired gentlemen from Istanbul.

I am also dark-haired. Maybe this is why Lieutenant Colonel Vladimir Gontar, deputy commander of the Batumi border unit, examines my journalistic ID so attentively. After all, not too long before my arrival, FSB [Federal Security Service] personnel detained in the border zone Iskhak Kasap, a 26-year-old citizen of Turkey carrying fake papers in the name of Isak Kendir, correspondent of an Istanbul information agency. Items found on him, besides the aforementioned, included a notebook with operational data, a large sum of American dollars, as well as photographic and video materials, in which the Turkish intelligence officer is portrayed with a submachine gun in hand during a combat operation, as well as at a command post next to Dzhokhar Dudayev.

Another Turkish intelligence officer, Kamil Oz Turk, served as a liaison between the Turkey's National Intelligence Organization and the Istanbul-Chechnya Committee. Yet another intelligence officer, known under the name of Guseyn, set up satellite communications for Dudayevites. He brought from Turkey special scrambler equipment that protects conversations from taps.

Dudayevites' Rear Services Base

Officially, the Turkish Government denies supporting Dzhokhar Dudayev's regime. At the same time, Ankara does not interfere in any way in recruitment of mercenaries and collection of funds for Chechen commandos. As early as in December 1994, under the pressure of the "Chechen lobby," the Turkish national security council under the chairmanship of the republic President Suleyman Demirel considered the question of providing emergency aid to Chechnya.

During the same period of time, the Chechen diaspora in Turkey, united into 10 large organizations, first collected

\$4 million for purchases of arms and ammunition for Dudayev, and then another \$10 million. Following the first group of commandos, which consisted of 500 Turkish citizens of Chechen descent, others went to help Dudayev.

Especially many mercenaries were recruited by such Islamic fundamentalist organizations as Mili Geryush Vakfy and Nizami Alem Odjakly. They plan to send to Chechnya from Turkey in the near future more than 3,000 persons.

During the peace negotiations in Grozny, Dudayev's chief of staff, General Maskhadov, has managed to restore command over previously crushed commando units. Large dollar infusions recently arrived from Turkey from Dudayev's Minister of Foreign Affairs Shamsetdin Yusef and the Dudayev government's Minister of Transportation Said Ibragimov, who also is there. It is assumed that some of the money will be used to pay the mercenaries, and some—to boost the Dudayev regime's positive image in the mass media.

There are attempts to turn the so-called Turkish Republic of Northern Cyprus into a virtual rear service base for Chechen commandos. A "Republic of Ichkeria representation" is already operating on the part of the island occupied by Turkish troops. The plan is to open a hospital there to treat wounded commandos and a saboteurs school. Facilities already have been readied to receive Dzhokhar Dudayev and Shamil Basayev, who perhaps will come for a vacation here.

A View From a Border Tower

This and many other things I learned from our specialists on Turkey while standing at a border tower. One can clearly see through binoculars an asker [soldier] soundly sleeping at a Turkish border tower.

My interlocutors, meanwhile, recalled a poster that hung on the Turkish side in the spring of 1989. It said in Russian: "Gorbachev! Give us the Transcaucasus for a week. We will get things in order without trampling a single flower bed." And you know what? They probably would have.

A hundred, a thousand years may pass, but the Armenians will not forget the bloody massacre perpetrated by

the Turks at the beginning of the century. Have others not learned the lesson? And not too long ago there was a massacre of Greeks in Cyprus. Extermination of Kurds is under way in the eastern part of Turkey and in Iraq. The war has been going on for 10 years already and has taken 13,000 lives.

More than 1 million Kurds live in the former Soviet Union. There are still a lot of them in Armenia, Georgia, and Azerbaijan. At the end of October 1994 they created in Moscow a Confederation of CIS Kurds. There is rumor that the new organization is under a strong influence of the Workers Party of Kurdistan, which has been declared a terrorist organization by the Turkish authorities. Not a bad excuse for making a preemptive strike at places of Kurds' habitation in the Transcaucasus, is it? After all, the Turkish Army is fighting against insurgents on the territory of another state. On our territory, so far they limit themselves to occasional shooting.

Here is an item from an operational report. "In a broad daylight, unknown persons fired rifles from Turkish territory at Russian border guards of the third border post of the Artashat border unit. As a result of this bandit action, the border post commander, Major Sergey Korsunov, was wounded. No fire was returned from Russian territory. The officer was hospitalized."

I lived at the Russian border post a few kilometers from Turkey for a week. I walked past blown-up pillboxes and an abandoned fortified area. Mangled cannons sadly stretched the trunks of their barrels toward the sea. Tank turrets, concrete poured over them, are covered with droppings. Dead silence hangs over our proving ground next to the post. On the Turkish side, however, one could hear explosions on and off.

So far—peaceful ones. The Turks were doggedly blasting a tunnel, meter after meter. They are widening almost threefold a strategic highway running along the seashore through the Turkish village of Sarp to the Ajarian population center Sarpi. Specialists say that the old road is too narrow for heavy tanks.

Political Issues**Former Yeltsin Press Spokesman Predictions**

954F3243A Moscow MOSKOVSKIYE NOVOSTI
in Russian 6-13 Aug 95 No 53, p 31

[First impressions of Vyacheslav Kostikov, new ambassador to the Vatican, recorded by Aleksey Khazov, MOSKOVSKIYE NOVOSTI correspondent in Italy: "I Am Taming the Political Flesh"]

[FBIS Translated Text] I have already presented my credentials to John Paul II and have had a lengthy, candid conversation with him. It seemed to me that the first meeting was a success on the emotional level (we spoke for part of the time about "common" literary matters, about culture), and this gives me hope that personal relations with the head of the Catholic Church will develop well. For me this is very important. Working with President B.N. Yeltsin, I repeatedly had an opportunity to satisfy myself how important personal relations are in politics. Before leaving Moscow, I met with Patriarch Aleksiy II, and I got the impression that both Aleksey II and John Paul II are suffering deeply from the unresolved nature of a number of problems of relations in the Christian Church. I believe that in ecclesiastical policy, as in secular policy also, personal diplomacy can overcome those frequently artificial wildernesses that diplomatic officials are unable to negotiate. As far as my immediate intentions and desires are concerned, they ensue from the mere fact of the establishment of relations between Russia and the Vatican. Representatives were exchanged in 1990. Some initial experience has been accumulated, and the animosity implanted by atheist diplomacy and propaganda has been overcome. Russia is currently on the last page in the Vatican's diplomatic corps reference book at the Holy See. This is not with malicious intent, but the statement of an annoying fact: As distinct from all other countries, Moscow has in the Vatican the status not of an embassy but a "special mission." De facto relations are not in the least bit different from embassy relations, but de jure.... This special case needs to be overcome. There have been more than enough verbal statements on this score from both sides. To follow Bulat Okudzhava's advice, we need for a start to learn to pay each other "compliments."

I believe that the time has now come for the Russian Church to move more boldly into the diplomatic field. The Communists held the Russian Church in diplomatic solitary confinement. Today these cuffs have been removed. There needs to be more contacts, experience needs to be accumulated. The word of the Russian Orthodox Church could be useful in conflicts that are to some extent of a religious nature.

I have to confess that, while in Moscow, I underestimated the activity of Vatican diplomacy. It is particularly pronounced in Balkan affairs. Hardly a day goes by without this Vatican spokesman or the other speaking in this connection. The Balkans are one of the leading topics in the powerful Catholic press. The head of the Catholics, Pope John Paul II, has spoken on this matter repeatedly also.

Some remarks in the mouths of the senior Catholic clergy sound quite contradictory. One sometimes has the impression that there are "doves" and "hawks" among them also. But, on the whole, the Vatican is extremely cautious and obviously wishes to preserve the possibility of contacts all along the line.

Whence, from the Vatican, when one goes deeper into the Balkan file, certain trends, which contain a potential danger for Russia also, show through more clearly. Some analysts are attempting to present the conflict in Bosnia as a conflict between the Orthodox and Muslims. The events in Chechnya are being "imposed" additionally here also. A manifest desire to impart to the natural concern of the Muslim states at the course of the development of the conflict an anti-Russian thrust shows through in a number of publications of the European press. Some people, it would seem, are greatly concerned to set Russia and the Muslim world at odds. This is a very dangerous game. It could ultimately lead not so much to friction between Russia and the Muslim world as to a broader conflict between the Muslim East and the Christian West.

Russia's historical experience testifies precisely that even within the Russian Empire, which the Bolsheviks entirely wrongfully called the "prison of the peoples," relations between different creeds developed relatively harmoniously. Great tolerance of other religions and cultures was observed in Russia, except for several deplorable episodes connected with the Black Hundred persecution of the Jews.

As far as my personal political life here in the Vatican is concerned, I shall not dissemble, it does not, of course, have the same intensity as in the Kremlin in the position of press spokesman. I am growing accustomed to the new scale, to the new (perhaps more intricate) style. I am taming the "political flesh." I am getting a feel for things. I call my political friends in Moscow. The absence of fresh news is dispiriting. I was simply floored by the fact that the Vatican mission did not subscribe to a single Russian newspaper. And newspapers reach the embassy several days late. I cannot imagine how it is possible to live without hot news. It is like taking a dead man's pulse. Of course, the fact that the Ministry of Foreign Affairs was and is now to some extent living

on a semi-starvation financial ration is reflected here. The foreign policy of a great power should not be extravagant. But it cannot be economical. Russia was ruined not by the Sobakeviches but the Plyushkins.

I would not venture to make political forecasts on the parliamentary elections from here, the Vatican. It is easier for me to forecast the presidential elections, perhaps. Mentality is of immense significance in politics. And I had an opportunity to observe the mentality of the president and his team from within. Boris Nikolayevich is a person of tremendous political temperament and firmly established power habits. He is of an age when the optimum combination of experience and temperament and political schooling and intuition takes shape in a politician. Of course, he has for the past 10 years worked flat-out, so to speak. But he has a sufficient reserve of genetic strength. And the situation in the country has become calmer: There is no longer the need to lift the maximum weight. Inwardly, I am sure that Yeltsin will not leave the ring.

Report on Second NDR Congress

954F3182A Moscow KURANTY in Russian
15 Aug 95 p 3

[Article by Yelena Pestrukina: "Not Everyone Is 'At Home' in the Ruling Party. Defense Is Not Represented"]

[FBIS Translated Text]

A "Solid" Facade

Before the opening of the congress, there was a meeting of the movement council where something unexpected happened: The leader of the program commission, Aleksandr Shokhin, without public explanation for the reasons, asked to be removed from the Federal Coordination Committee. He remained, however, on the movement council. Let us recall that Anatoliy Chubays quietly "got lost" at the first congress, and his name was included among the initiators of the movement. So politicians of the "new wave" are eliminating themselves and isolating themselves in command of power. The council accepted as collective members the movements Union of Petroleum and Gas Industry Workers, AKKOR [Association of Peasant Farms and Agricultural Cooperatives of Russia], the Association of Indigenous Small Nationalities, and the Spartak Society.

At its first congress, the party in power does not intend to burden itself with excess paperwork and is limited to one program document. But, as Shokhin stated in his report, many proposals have been received, there are documents all over the place, and a need has arisen for a brief platform, written in clear language. From

the course of the congress discussion, one can single out two types of "corrections." First, the representatives of the regions have tried to cram in specific socio-economic requirements like financing transportation and housing construction, say, in the North, support for social programs... as though they were speaking not about a political document, but about a five-year plan of the old soviet type. Political proposals caused "Home" ideologists even more "inconveniences." For instance, the representative of Bashkortostan would like the program to clearly include a point about a constitutional contractual federation and not simply a constitutional one, since, he says, the authorities have already concluded an agreement with a number of republics. After the saga of the "revival" of the Union, few are left with any illusions about where the "contractual" path would lead. But the Government and its "Home" need the support of the religious elite, and in this republic, as practice shows, the situation is especially under their control. The dilemma of whether or not to give in to separatist tendencies, under the banner of "strengthening the Federation," of course, or to play to political competitors—this has always been decided unambiguously by authorities in Russia.

The program consists of seven chapters: the objectives of the movement, the state and the society, spiritual development, social policy, economic policy, agrarian policy, foreign policy, and security.

In Shokhin's terminology, the inhabitants of the "Home" profess "state social liberalism." Those in power are trying to unite and embrace the slogans of all three of the main political trends operating in Russia: right-wing national-patriots, left-wing socialists and liberal-democrats. From now on, the Chernomyrdin bloc will call itself the "movement of the broad center," and not right-wing centrists, as it was initially called. As Shokhin explained, this is simpler for people who are not well-grounded in problems of centrism. But the ideologists could have given the real reason as well, for it is obvious: They did not manage to "divide up" the center, and the prime minister was forced to "stretch" his project so as not to relinquish the territory won by Ivan Rybkin to his competitors.

Regardless of how attractive the program of the party in power may be, the first question the voters will ask (and the attention of the competitors will inevitably be focused on this) will be: What kept you from doing this previously? It seems that for now the Government has only one response: Living has become easier and nicer than it was during the period of reformist revolutions. During the year, production has risen by 2 percent ("It is better to have a small amount of growth than a large decline"—stated the prime minister), the ruble

has stabilized, the labor collectives have retained their directors, and domestic financial capital is thinking about investments. And then comes the argument: Anyone who does not want disturbances, who wants peace and stability, must support the current power and its "Home," for otherwise all kinds of extremists will come into power and more experiments will begin.

The Fight Behind the Curtains

The fact that the "Home" is the party of the ruling clan of the raw materials industry is fairly clear both in terms of its participants and in terms of its program. Oleg Soskovets, who, it is thought, expresses the interests of the defense workers in government, "registered" in "Home" in his position, but his participation cannot be seen in anything except for the fact that he sits on the presidium. Of the numerous "directorial" associations, only the petroleum and gas industry workers have entered the "Home." The United Industrial Party, which grew up from the roots of the Russian Union of Industrialists and Entrepreneurs, where machine builders prevail, in spite of the personal services to the government of Arkadiy Volskiy, was sent to the "failure" Rybkin. The powers are also trying to cram in here—by influencing the leaders—the League of Defense Enterprises, although the "lower level" directors are digging in their heels.

In the fifth chapter of the program, standing out in large type, it says: "We do not think it is possible to underestimate the role of the growing sectors, above all the raw material branches and the branches for primary processing, in the strengthening of Russia's world positions. It is these branches that today have joined in the renewal of economic ties in the near and far abroad... active expansion in commodity and financial markets in the zone of Russia's vitally important interests." And the defense-industrial complex is mentioned only in the last section of the last chapter. And in what terms! "...In this matter one cannot allow extravagance or thoughtless expenditure of state funds in order to satisfy narrow departmental interests... it is not permissible for costly programs for arms and military equipment and the State Defense Order to be based on padded estimates that exceed the real demands of defense and the economic capabilities of the state." In brief, the "raw materials industry" feeds the Fatherland and the "defense industry"—is a parasite gobbling up the state budget.

Since receiving the assignment of preparing for the elections, the prime minister has been in constant contact (at least until December) with the president, he has become "invulnerable," and he immediately dealt a crushing blow to the "defense industry." He urged on, not to

say provoked, the parliamentary-governmental crisis by raising again the question of a vote of confidence in the cabinet. He understood quite well that both scenarios—both disbanding the parliament and replacing the head of state—when the party in power was unprepared for the elections would be unacceptable to the president. Having reached an agreement with his long-standing political partners—the team of Yegor Gaydar—Chernomyrdin more or less made it necessary for the president to "give up" certain enforcement ministers. And the main thing was to change Russia's policy radically, to the opposite direction, on the eve of the final military victory. Alas, a military victory would have sharply increased the political chances of the "defense industry," and this would have been the most serious argument for the prime minister to begin peace negotiations. Of course, officially (including at the congress) the propaganda was different: A humane, liberal power for the first time placed human life above political expediency. At the regular session of the State Duma, the results of the government's peace initiative were regarded differently. As the chairman of the parliamentary commission on Chechnya, Stanislav Govorukhin, noted, during the course of the negotiations all of the military achievements were crossed out. Dudayev remained in power, and the fighting men returned to their villages which were previously controlled by Russian troops.

...An equivocal situation has developed in foreign policy as well. The "raw materials industries" are economically linked, they are interested in friendly relations with Europe, and they are afraid of the slightest threat of any wounded feelings, the prospect of the rejection or reduction of petroleum and gas exports because of political factors. Therefore, they are prepared to support the actions of the West for redistributing the former zones of Soviet influence—whether it be the introduction of an economic embargo or direct military intervention under the banner of peacemaking. The more so since such support simultaneously weakens the defense industry's competitors who, in turn, are trying to preserve their traditional foreign markets. And the ordinary Russian in the street, not knowing what is going on behind the scenes, can in no way understand why one day the president says one thing and the next day he "corrects himself" in the opposite direction. Why has Russia for several years regularly reproached NATO for its double standard in Yugoslavia but is doing nothing to change the situation. Why do they first brand the Iraqi leader a dictator and a murderer and then our minister of foreign affairs almost exchanges kisses with him in Baghdad. The battle of the clans, albeit not out in the open but behind the scenes, where the participants themselves, like their true goals, are not named, makes Russian politics shaky and leads to

human and material losses. Therefore, the entry of the "raw materials industry" into the open arena of the party in power and after it other clans which have formed their voting associations can only be welcomed. In a market-driven society, differentiation of economic and political interests is a normal phenomenon. And only elections will make it possible to discern from the political mosaic a picture of nation-wide, state-wide needs.

The Back Stairs

The "Home" is falling before our eyes. Although when laying the foundation they made plans to win the majority, in an interview in August the chairman of the organizing committee of the council of the movement, Aleksey Golovkov, was already discussing the fact that if the movement wins only 7-8 percent there will be certain difficulties for its subsequent activity. So even that possibility is no longer ruled out. Of course, for the prime minister, such a result could be a serious political backslide, and it could be an unpleasant sign for the president as well. But on the whole, one can say that the movement is coping with its main task—to prepare for the presidential elections. Two teams are now operating autonomously within its framework (and even "living" apart). The parliamentary elections themselves—preparation of the program selection of candidates, campaign tactics—are being handled by the Federal Coordination Committee, which is headed up by the chairman of the GKI [State Property Committee], Sergey Belyayev. The task of the executive committee, which is headed by Leonard Vid, is different and is aimed toward the future. The executive committee is creating an organizational structure for the party of power which in principle can work for any top individual and which can continue its activity right up to the presidential elections. It is telling that while government cadres are employed in the Federal Coordination Committee, the executive committee was formed out of former activists of "Russia's Choice." These people are oriented not toward the prime minister, but toward the president, for whom they are building a "stairway."

ORT General Director Blagovolin Interviewed
954F3181A Moscow KURANTY in Russian
18 Aug 95 p 10

[Interview with Sergey Blagovolin, general director of the Public Russian Television, by KURANTY correspondent Olesya Kuzina; place and date not given: "Channel One Will Remain Number One"]

[FBIS Translated Text]

[Kuzina] Sergey Yevgenyevich, let us look through your eyes at the ORT [Public Russian Television]- Ostankino conflict. Will it ever end? Perhaps some compromises have been found?

[Blagovolin] In my opinion, an absolutely natural process took place (and has already ended, by the way). All the rumors and hysterics around it are terribly overblown. That monster—Ostankino, which employed about 8,000 persons, who filled all these enormous buildings and office space—simply outlived its time. It turned out to be completely unfit to function in the environment of a market economy—the economy that exists in more than 200 countries that at least minimally stand on their own feet. The time has come that requires you to pay for electricity; it turned out that salaries have to be earned instead of just being given to you by someone. But people could not change their accustomed way of life, and Ostankino began to disintegrate into pieces.

All these independent producer companies—ATV, REN-TV, and others—this was the beginning, and ORT was only a logical development of this process. When ORT came on the scene, Ostankino ceased being a broadcast company, but it remained a producer of television programs. And now everything is very simple. If Ostankino shows itself capable of producing good, standout programs that they will sell at reasonable prices, we will be buying them with great pleasure. In my opinion, the saturation of Russian television with Western programs has reached a critical point; it is time for national programs and topics to find their proper niche. From this standpoint, we and Ostankino need each other very much. And all this talk in the Duma, accusing us of some gigantic swindle of the century, leave me with a strange aftertaste.

[Kuzina] Were you present at these discussions?

[Blagovolin] I was at the hearings at the Federation Council when the law was being discussed. Mr. Tuleyev gets up and suddenly begins to quite seriously begin to say that we, the ORT, took over \$700 billion worth of property. And what do you think? None of these senators, who claim the right to manage the economy, had a thought flicker through their minds; nobody said: "What do you mean—what \$700 billion? This is about equal to three times the value of Russia's gross national product these days!" Oh, no. These things are being said either by people who in fact have no notion of economic parameters altogether, or are misleading on purpose.

[Kuzina] And what is the real situation?

[Blagovolin] We don't own anything here at all! This office, the equipment—everything has been leased from

the Television Technical Center—in other words, from the state. We own only broadcasting licenses. And these endless attacks on us, the accusations that we have privatized and grabbed something (although it would be clear even to a hedgehog that we have not grabbed anything and have not privatized anything) are occurring for purely political motives. Look who is against us—a rather motley crowd, but united by one very interesting attribute. It is very easy to detect.

[Kuzina] And what attribute is that?

[Blagovolin] These people may be divided into two categories. The first are the ones who believe that the current regime is too reactionary. It would be good, they say, to quickly put together, in a matter of couple of years, something similar to Switzerland, Germany, or the United States. And since they themselves do not know how to do it, they open a virtual competition as to who will curse louder the legitimately elected people. Do understand, I am not against constructive criticism that is aimed at proving the incorrectness of a particular political line. And it must be tough—I myself am a tough man. But I will never accuse a political opponent of being a crook if I have no proof of it.

Political struggle reduced to the bazaar level cannot help but depress one and cannot be treated seriously. As to the second category of our vehement opponents, they are the people who believe that what the country needs is a regime, not an authority. They do it from the position of a return to the socialist society, socialism with a human face. The last person who unsuccessfully attempted to build it was Dubcek in Czechoslovakia. He was quickly shown how socialism with a human face looks. And it was never built in any country.

[Kuzina] By the way, the long-awaited elections are approaching. Do you have any likes or dislikes when it comes to contenders?

[Blagovolin] Due to my official position, I do not want to name specific people, but my preference is for people who can talk to one another and discuss their problems, and most importantly—those who have proved that they can work, whether in a plant or a field, a politician's office or a parliament member chair. I am with those who advocate expanding accord and understand the necessity of reforms, even though they may have objections as to the method of accomplishing it. I am undoubtedly with the Russia Is Our Home bloc, with Rybkin's bloc; I have affinity for some of Yavlinskiy's and Gaydar's ideas; I am with those among the agrarians who are willing to sensibly appraise the current situation, and with all those who understand that we must build a political system capable of functioning in the modern world.

[Kuzina] And whom do you dislike?

[Blagovolin] I am against all extremists—left or right. Absolutely all. Let my former colleagues from the Democratic Choice of Russia not get upset, but I am completely convinced that democratic extremism is no better than communist extremism. They are twin brothers. With the only difference that about some we already know everything, while others continue to surprise us. When a person living in a country in which the market economy is being built, albeit stumblingly (there is no alternative to it!), calls for an international action against his own country, for me he is an extremist. If he, in front of stunned mankind, turns the military into a scarecrow inside his own country, he is a person who is doing more to destroy normal life in his own country than the most vehement communist from Zyuganov's party. Even if he justifies it by the fact that people are dying in Chechnya. It is they, this sort of "democrats," who have given the word "democracy" the color of phrase-mongering and helplessness. Which has nothing to do with real democracy. When I am asked how I understand democracy, I quote Margaret Thatcher: "Democracy is responsibility." Nobody said it better.

[Kuzina] Television is the strongest medium in terms of influence on people's minds. How do you plan to work during the pre-election period?

[Blagovolin] The first meeting of the Central Electoral Commission on the subject of covering the election campaign already has been held, but the final rules have not yet been set. Of course, in addition to general rules, each television company will form its own political line. We have already clearly defined our line: No to extremism! We intend to honestly advocate the idea of national accord, a strong state, and legitimate authority, the idea of Great Russia in the best sense of this word.

Let us not forget that after the revolution of 1917 we inherited a very rich country, fourth or fifth in the world in terms of its economic potential. And I believe that we have to propagandize the idea of a country that will meet all the demands of the modern world but at the same time will remain Russia, instead of turning into a reduced or enlarged copy of China, England, or Germany. And I am not trying to discover anything new, by the way. I will cite as an example Japan, which entered modern civilization in an absolutely natural way and turned into one of the engines of the world progress but retained a full measure of its cultural and national originality. And Japan has not less original culture than Russia, which always had been opened to the world.

[Kuzina] Will we see some new things on your channel soon?

[Blagovolin] Naturally. Both the form and the program schedule will change. But I want to emphasize: We want our Channel One to remain the Number One channel. I want it to get modernized and develop, but I am not going to launch a revolution there. We will not deprive tens of millions of people of the things they have grown accustomed to. Ideally, we want to see our channel modern and to the liking of viewers of different generations and tastes, but at the same time be distinguished by our own trademark.

[Kuzina] What will be your main thrust?

[Blagovolin] It is hard to answer unequivocally, and the thrust should go in several directions. One of the staples of every television company is movies. Some very good specialists in cinematography have come to us now. Of course, we want our people to watch good foreign films, but we believe that there should be as many as possible of our own good films on the air. This is not a bow to patriotism—we do have a great movie industry in our country. And besides, those movies are about us.

The second important direction, and also a huge area of work, is information programs. They must be more dynamic, graphic, esthetically different for perception. Our most vulnerable point is the week-in-review program. And in general, in my opinion, there is too much garbage on the channel, which stays there only because it has been there for years. Now would be a good time to do some cleanup.

[Kuzina] How do you feel about this "stab" style that has become fashionable now?

[Blagovolin] I do not like "stab," and I do not think we will have it on our channel. Our general producer Konstantin Ernst shares my position. There may be some humorous programs, but I would like the channel overall to keep its respectability and respect for the viewer. As to strictly creative affairs, I try not to get into it too much. I am not a television professional and do not want to repeat the mistake of some people, who get convinced that they have become professionals after occupying this chair for a year.

[Kuzina] Immediately after the ORT was formed, you banned advertising on your channel. Now advertising is appearing again. What is happening?

[Blagovolin] Some publications write these days: "Aha! They did come back to advertising!" Despite the fact that we said from the very beginning that this was a temporary moratorium. At first we thought we would take a three-month break; four have passed, but we absolutely did not intend to live completely without advertising. If it is the kind of advertising that makes sense, it helps not only the channel—it helps people

to live and get their bearings. But the advertising that was on the air before the moratorium was absolutely chaotic, was not taking into account the specificity of the Russian market, and overall, it was unclear who controlled it. Now, however, we have defined for ourselves some criteria that advertising going on the air on our channel should meet. Here are several of them: honesty from the standpoint of the quality of the goods being advertised; the esthetic form of the advertising; advertising socially significant goods. We will give all possible encouragement to agencies that deal with Russian advertisers. Thus, our general line of keeping in mind what the country currently needs will also manifest itself in this.

[Kuzina] Does the advertising already being shown on your channel meet these criteria?

[Blagovolin] Right now there is so little of it that all the desired parameters cannot be squeezed into such a short period of time. But we are already becoming selective and try to give priority to advertising that is needed not only by the channel but also by the society. When the two-month tender we are currently conducting is over and we determine the advertising agencies with which we will predominantly be working, everything will go smoothly.

[Kuzina] You are talking emotionally about the respectability of your channel. Are you not afraid of live broadcasts after the incident between Zhirinovskiy and Nemtsov on Lyubimov's talk show?

[Blagovolin] On the contrary, I am very happy about live broadcasts. I want the country to know its heroes. And one of the television channels' tasks in the election campaign is not to limit themselves to showing us a person who spends half an hour presenting all sorts of promises without being interrupted or asked any questions. Because the person who comes into power will have to answer questions....

[Kuzina] Could you imagine a program like "Puppets" on your channel?

[Blagovolin] This is a great program, and the NTV should build a monument to whoever conceived it. I would not mind having such a program on our channel. And all the current hoopla around it is simply laughable and produces exactly the opposite effect—makes it immensely popular among the viewers.

[Kuzina] What was the main difficulty you have encountered over the period of your work at the ORT?

[Blagovolin] There are a lot of them, difficulties. But I can say that the absence of experience in television did not turn out to be a big problem for me. The difficult

part is that everything here had to be done as we went along—no time to adapt in any way; everything had to be done within a tremendously tight time frame.

But the most difficult part probably is forming a team. It is a torturous process, the question of compatibility between people, with a lot of ambition and lack of understanding involved. But everything is gradually falling into place.

[Kuzina] Can you already name the people who think the same way you do, people you would like to work with for long years to come?

[Blagovolin] I do not want to mention anyone by name so as not to hurt the feelings of others. But had it not been for such people, I simply would not have been able to work here. We are not shifting the burden onto each other—we help each other.

Objectives of Main Protection Directorate

954F3263A Moscow MOSKOVSKAYA PRAVDA
in Russian 24 Aug 95 p 9

[Report by Tatyana Pomelova: "Terrorism in the Kremlin Is Impossible: Trillions of Budget Rubles Earmarked for Secret Services Are Not Wasted. This Is the Opinion of S. Devyatov, Press Secretary of the Main Protection Directorate of the Russian Federation President."]

[FBIS Translated Text] Financiers with a sense of humor maintain that in Russia, unlike in all economically developed countries, the new fiscal year begins not with a specific date marked in the business calendar, but at a certain barely perceptible point when the so-called budget process enters its final stage. Today the process called Budget-96 has approached the aforementioned stage.

While it was underway, regions, agencies, and industry sectors were battling to recut the draft budget in their favor. While ordinary citizens, not indifferent to domestic politics and economics, followed with interest who will get the treasury money and how much. The most intense interest traditionally is stirred by the so-called "black" expense line items. They account for not millions, not billions—trillions of rubles. So what are these enormous amounts used for?

We were able to slightly lift the shroud of mystery from this problem with the help of Sergey Devyatov, press secretary for the Main Protection Directorate [GUO] of the Russian Federation president. His speech to the participants of the Mirror, a political discussion club, organized by the Dangerous Zone Foundation for Protection of Journalists and the SAN-TV television company, was virtually the first communication between

the secret agency's press secretary and a rather broad circle of "ordinary" members of the mass media.

Mr. Devyatov informed us that the GUO employs more than 10,000 persons and that the agency is fully staffed. The management's task is unique: It is responsible for the security of the entire complex called the Moscow Kremlin. This includes not only the president's residence, but also museums, historic monuments, and the territory adjacent to Kremlin walls (Alexander Gardens, the Mausoleum, the St. Basil's Cathedral). And of course one of the main functions is ensuring the security of a number of statesmen and the head of the state himself.

The protection directorate supervises all restoration and repair work within the Kremlin complex; all information that has any bearing on the Kremlin goes through it. I should mention that Sergey Devyatov is a historian by profession who, despite his rather young age, already has earned a doctorate degree (on a Kremlin-related subject, of course).

The press secretary did not reveal whether the GUO has special analytical services similar to those in Western special services. Nor was he forthcoming on the methodology of operations, the structure of the agency itself, and the principles of personnel selection—all of this represents a state secret protected by the law.

Does anybody have the authority to oversee such a secret organization? Yes, but the circle of "authorized" persons is extremely small. For instance, the General Procuracy and the Control Administration of the Russian Federation president have the full right to such oversight. The parliament's committee on security may issue recommendations to the GUO, as well as demand explanations on some particular matters. On the subject of greatest interest—how the Duma discusses the budget in the part involving financing the needs of the secret agency—S. Devyatov said that the budget is discussed "by line item without revealing the specific nature of expenditures."

In the press secretary's opinion, the quality of work done by the Main Protection Directorate's staff is guaranteed. As is known, the Kremlin history (that is, the history of state power in Russia) is replete with assassination attempts on monarchs. Suffice it to recall that such attempts began as early as under Basil the III and Ivan the Terrible. Attempts on empresses' lives picked up again in the 18th Century. The terrorist fate befell the Moscow governor general who was killed by Kalyaev. In 1918, Lenin was injured by terrorists (although this attempt was carried out outside the Kremlin territory). In 1943, shots were fired at an armored limousine coming of the Spassky gate. Mikoyan was riding in

it. In 1969, the notorious Lieutenant Ilyin fired shots at a cortege of cars carrying astronauts. Among the latest events, one could mention an attempt to shoot at the Mausoleum from which Mikhail Gorbachev was greeting demonstrators.

Mr. Devyatov said under the current system of Kremlin security, "effective terrorist acts are impossible." When the journalists reminded him of the past incident of B. Yeltsin falling off a bridge, the press secretary refused to comment in any way on this mysterious incident. Instead, he said that at the time of massive-scale theft ravaging museums today, not a single item is missing from the Kremlin exhibits.

Economic Issues

*Alternatives to Official Course of Reforms Assessed

954E1341A Moscow MOSKOVSKAYA PRAVDA
in Russian 23 Aug 95 p 4

[Article by Aleksandr Tyurin: "Attempts at Stabilization on the Threshold of a New Act of the Russian Drama"]

[FBIS Translated Text] Ideas concerning the long-awaited stabilization of the economy and the life of society as a whole, which has finally begun, have been propagandized with unprecedented insistence in recent months. There is constant repetition of the proposition concerning the incontestability in principle of the socioeconomic model and the preset and predetermined nature of the line of society's development by virtue of the global irreversible changes which have occurred in it in the years of the reforms.

There is nothing new here, seemingly, we have heard all this earlier also, to the effect, say, that "there is no alternative to the reforms." Such talk is always resumed closer to summer, when there has been somewhat of a decline in inflation for seasonal and other factors within the framework of a kind of cycle that repeats from year to year. But this year the campaign is reaching a qualitatively new level, gradually becoming a kind of psychological warfare.

The reasons for the new situation are, in principle, clear, they are connected with the strengthening of the positions, temporary, at least, of the part of the "power party" represented by V. Chernomyrdin's group. It is this that is laying claim at the present time to the role of consolidating center of social life and guarantor of the stabilization of the economy with a continuation of market reforms without an undue fascination with liberalism. It is another matter that it is interesting how rapidly many career ideologists who served the policy of "radical liberalization of the economy" have changed

their bets and have embarked on apologetics for the restoration of the market-nomenklatura and corporate principles in Russian society.

Economic and social stabilization is undoubtedly vitally necessary for our country, each person individually, and all the peoples populating it. But it is essential here to clearly understand what kind of stabilization and what kind of price for achieving it we could be talking about.

Now, it seems to me, we are talking about possible stabilization for the political elites and the small class of major real property owners closely connected with them (economic elites). About a stabilization as preservation of the status quo, as the consolidation and cementing of today's position of these elites under the conditions of continuation of the trends that have emerged in the economy, the lead role of the fuel and energy and raw material complex, and the winding down of manufacturing industry.

Also very important is the fact that such stabilization (or stagnation) cannot respond to the interests of a majority of the central and regional elites as could neutralize the opposition of other quite influential groupings. The oil and gas complex, even with its most propitious development, is hardly capable of affording such regions of Russia as the Center and the Northwest, East Siberia, and the Far East palpable economic advantages. It would be naive to suppose that the revenue from the sale to the West of fuel and energy resources will bring Russia a prosperity comparable to that which is observed in the oil-producing countries of the Near and Middle East. This can be ruled out completely, considering the size of the territory and population of Russia and the limited nature of the West's raw material requirements and also the orientation of the corresponding sectors of the economy within the country predominantly toward narrow-group interests and "corporate" consumption, to which the weakened nature of the economic role of the state is objectively contributing.

All the more can such stabilization not occur in the interests of a substantial majority of the Russian population inasmuch as the suppression of its legitimate interests will continue. "Austerity measures" could at some stage be required, and by no means to combat crime and corruption but to forestall the transition to an open form of social conflict, the potential for which has long been smoldering in the depths of society. However long-suffering and patient our people, the broad-scale marginalization and lumpenization inevitable with a colonial model of development could sooner or later lead to a social explosion fraught with "Russian rebellion, senseless and ruthless."

True long-term stabilization is impossible under the conditions of social degradation and the destruction of the fabric of society. Creation or, at least, a clear prospect of creation and a stable middle class are essential for it. It is this class, not this "social contract" or the other concluded between the political and economic elites, which is the cementing link of any modern society laying claim to a worthy place in the world community. The middle class, albeit highly specific, which existed in Soviet society and which was an important factor of its stability, was practically completely destroyed as a result of the radical liberalization of 1992-1993.

The social channel of "new Russians," which arose from the rubble of the old nationalized economic system and which imbibed its resources, is not taking the place of the traditional middle class, being too insignificant numerically and separated materially from the rest of society by a practically insurmountable barrier.

As far as the economic model built around the fuel and energy complex is concerned, it also does not create a broad middle class, continuing the trend of society's polarization. In addition, as the processes that are observed today show and to which economic analysis testifies, the fuel and energy complex is not the locomotive of some in any way significant development of other sectors of the economy nor does it create mass employment, not being a labor-intensive sphere of the economy.

Regional differentiation would intensify. Only Moscow, the extractive regions, and some other enclaves of capital would be able to exist at a relatively acceptable level. The depressed condition of many regions, which are even now living in poverty and which neither the federal budget nor the oil and gas complex can feed, would become entrenched.

And one further point of considerable significance in the light of today's election battles. Wishful thinking and a manifest estrangement from the life of the people show through in many of the economic and political science studies on stabilization. Owing, possibly, to their authors' excessive circulation around "Moscow hang-outs" and their fascination with "political techniques" to the detriment of a comprehensive evaluation of the economic and sociopolitical situation in the country. This, it would seem to me, is the reason also for the confidence that the power elites are even today controlling Russian social life perfectly efficiently and the frequently expressed opinions to the effect that no one except V. Chernomyrdin could propose anything constructive or vital in the economic sphere. It is not inappropriate to recall the 1993 parliamentary elections, when, contrary to the forecasts and hopes of the analysts, those on whom

the main gamble had been made altogether failed to obtain a decisive advantage. Many of today's forecasts also, therefore, would seem quite dubious and premature.

Much, of course, will depend on who successfully manipulates public opinion, in what way, and to what extent. But, nonetheless, our electorate, as it is now fashionable to call it, should not be underestimated. People will not now vote as they are instructed "from above." The bulk of them, despite the widespread assertions, do not link with the present premier some in any way appreciable improvement in its position compared with the "Gaydar period." If we judge even by official statistics, there has been practically no improvement, and from June 1994 through June 1995 real personal income declined 10 percent. And, in addition, many people will not forget the "united" responsibility of the "power party" for the events of September-October 1993 and the personal responsibility of a number of its well-known leaders.

Even more questions, if not to say bewilderment, are evoked by the statements concerning the incontestability of the party and, strictly speaking, the figure of V. Chernomyrdin. Not to mention the fact that at the philosophical and moral level there are alternatives in almost any situation, they are sufficiently obviously present in the sphere of real politics at this time. It could not be otherwise for society is in a complex transitional state, and the transitional period is not even approaching completion. A further redistribution of property is inevitable, and its nature will largely be determined by the center/centers of attraction around which the national economic complex is marshaled. And the struggle around the solution of this last question will have the most direct influence on the prospects of realization of this alternative or the other to the government's present policy.

In reality, it makes sense to talk not so much about democratic and conservative alternatives as about "constructive" and "destructive" alternatives.

The so-called democratic alternative to the government's policy signifying an orientation toward the consistent liberalization and openness of the economy and the building of a civil society of the Western model would seem impracticable at the present time. It appears that this is now a past stage in the life of post-Soviet Russia. The crisis of liberal ideology and policy, which led to the actual removal from power of its principal supporters, and the ongoing "nomenklatura renovation" are evidence of the inorganic nature of the "Westernizer" orientation for Russian society. It has and will preserve

in the future also, evidently, a comparatively small niche of the order of 15 percent of the electorate.

The destructive alternative could be, however paradoxically, the logical continuation of the present course toward stagnation. It is not the mythical threat on the part of radicals of right and left (who under the present conditions have no serious chance of success) but the aspiration to retain the socioeconomic paradigm without serious changes which will lead, ultimately, to the country's marginalization. Inasmuch as such a policy, as already observed, will not remove many of the contradictions between the elite groups themselves, and a continuation of the attempts to coax out the frequently illusory "political capital" and the entirely tangible economic capital from the morass of group interests is inevitable. And then, as the social degradation intensifies, the attempts of the most destructive forces for the country will attempt to come to power, as has been the case repeatedly at critical moments of Russian history.

In addition, the quite prevalent forecasts concerning the voluntary relinquishment of office by B. Yeltsin and the fact that V. Chernomyrdin is his natural successor and the figure who will have the "first popularly elected's" "blessing" would seem insufficiently substantiated. And although B. Yeltsin's victory is highly problematical, if not to say unlikely, nor should such a scenario be ruled out completely. Such an alternative would, possibly, be preferable to some extent to "Chernomyrdin's party," the power of which would almost inevitably lead to the predominance of the corporate interests of one powerful grouping. As distinct from the premier, B. Yeltsin is a far more experienced and subtle a politician who has in the past two years moved away from unambiguous reliance on the "liberals" and has endeavored to prevent the clear-cut domination of this lobby or the other, which under the conditions of instability and unpredictability are not the worst tactics.

But two reservations should be made here also.

First, from the viewpoint of the historical perspective this scenario may hardly be deemed an alternative inasmuch as the country's socioeconomic course would, most likely, be retained without any appreciable changes.

Second, the deteriorating physical and mental condition of the Russian president contains a danger of his gradual actual removal from key decisionmaking. This could have the most negative consequences for the country inasmuch as it signifies total unpredictability and a wholly unrestrained intergroup struggle in the absence of a national leader.

Mention should be made among those which are relatively serious and practicable to this extent or the other of the "national-patriotic" and "center-left" alternatives. There is, in reality, no insurmountable boundary between them, and various bloc formations of politicians of a national-state absolutist and a center orientation are perfectly possible in the election struggle. Nonetheless, the center-left path would seem preferable and the most constructive for Russia. The ideology and practice of state paternalism, active regulation of economic processes, and a strong social policy with the firm defense of national-state interests are the most appropriate to native historical tradition and the mentality of Russians.

A center-left model cannot be built other than on consideration of the many now irreversible changes in the economy and the social structure of society and the formulation of mechanisms of the harmonization of the interests of corporate groups. Its practical implementation presupposes the incorporation of part of the "power party" and will not, therefore, require revolutionary transformations.

Its economic nucleus is based here on a system of national priorities such as would make it possible to restore Russia's production engineering potential. It cannot be a question of undifferentiated support for all of manufacturing industry, as critics of this model would frequently like to portray matters, but of a choice of the "points of growth" which could "pull up" the economy. Mention may be made among such sectors of the aviation and space complex and arms production, where Russia is perfectly capable of competing with the leading Western powers. Certain other branches of manufacturing industry which serve the domestic consumer market and, with reasonable protectionist restrictions, could be raised up without budgetary infusions have pretty good prospects here also. The fuel and energy complex will inevitably occupy an important place in the system of economic priorities as well, but placed in such a framework whereby it does not assume self-sufficing significance. All this signifies a transition from the present monocentric to a polycentric economic model, which corresponds most appropriately to the requirements of our country.

In today's pre-election situation far from all is clear, and it is too soon to draw final conclusions, but the forces capable of realizing a center-left model have already taken sufficiently clear shape. It is not at this time of decisive significance whether they create a relatively united large-scale election association. This will most likely not happen. But the aggregate electorate of the parties and movements which could be attributed to a center-left orientation is sufficiently large, and many

of these forces could secure seats for themselves in parliament independently.

The main events which will largely determine the country's fate will unfold later, on the threshold of the presidential elections. It is then that the question of the creation of effective associations will arise, and the center left will simply be forced to shape itself organizationally if it lays claim to a paramount political role. The problem of the correct choice of a strong leader of the center left, not, preferably, short on charisma, is of key significance. At this stage much will depend on the relationship of the center left and the communists, more precisely, on whether the electorate of the Communist Party of the Russian Federation agrees in the second round of the elections, let's assume, to cast its vote for the leader of the center left. The prospects of realization of a center-left model in Russia will depend on this to a very considerable extent.

***Detailed Analysis of the Russian Securities Market**
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[FBIS Translated Text]

State Securities

This sector of the market is at present represented by four instruments: state non-coupon short-term bonds (GKO); federal loan bonds (OFZ); internal state currency loan bonds; treasury bonds. In addition, state bonds of the 1992 issue formally continue to circulate. It should be noted that in the second quarter of 1995, a new instrument was put into circulation — OFZ (the first auction for distribution was held on 14 June). It is expected that in the near future, the state securities structure will be supplemented by one or two new instruments.

State Short-Term Non-Coupon Bonds

The development of the GKO market was substantially activated in the first six months of 1995 (see Table 1).

Table 1. Increase in the Volume of GKO Distribution at Primary Auctions, at Face Value, in trln rubles

	Total	3-month	6-month	12-month
1993	0.229	0.219	0.01	—
1994	17.384	14.096	3.063	0.225
1995				
January-March	17.702	11.722	5.584	0.396
April-June	28.201	21.434	6.37	0.397

The data presented in Table 1 show the volume of GKO distribution only at primary auctions. At the same time, beginning with the new year, the Central Bank's policy became considerably more flexible — the Central Bank distributed GKO not only in the course of the primary auctions, but also in secondary tradings. The volume of borrowing, therefore, is actually higher than is shown in the table.

This increase was caused mainly by the heightened attractiveness of investments in GKO. At the beginning of the year (from January to the middle of March), the Ministry of Finance and the Central Bank substantially

increased the GKO income by reducing the cut-off price. This was in many ways an enforced measure, called upon to reduce the outflow of resources to the currency market and thus stop the drop in the ruble exchange rate. This policy objectively increased the danger of turning GKO into a financial "pyramid," with a high level of investment risk.

Since the middle of March, however, the investment attractiveness of GKO has begun to increase, and for objective reasons, among which should be singled out:

The reduction in the inflation rates, which increases the attractiveness of ruble investments;

The sharp narrowing and fragmentary destruction of the interbank loan market, caused by the chain of non-repayment of loans by major banks, which led to the outflow of funds from this segment of the financial market.

In addition, at the end of March the Central Bank decided to change the procedure for reserves for currency accounts, which also, in the second quarter of 1995, substantially reduced the attractiveness of currency deposits and caused a major redistribution of bank investments in favor of ruble assets, primarily GKO. This measure was adopted in a situation in which a further increase in GKO income might have led exclusively to the crash of this market as the result of the need to draw in increasingly more funds to liquidate the preceding issues. Moreover, only because of this step, in May, all the series with liquidation in this month were redeemed through attracting investments in the new series, distributed at the May auctions, without increasing the GKO income. On the contrary, the income at the auctions, beginning with February (with the exception of two auctions on 4 and 11 May) continually dropped.

In addition to the increase in distribution volumes, an increase in secondary turnover was also observed. The quite high income formed at the auctions, as well as the presence of a large number of issues in circulation at the same time, now make it possible to engage actively in speculative operations.

The Ministry of Finance tried to continue the policy of increasing the proportion of bonds with longer periods of circulation (6- and 12-month). In the first quarter of 1995, however, there was only very modest success in this direction. Despite the formally serious change in the structure of GKO in favor of long-term securities (Table 2), no real changes occurred, as compared with the third quarter of 1994. The point is, a considerable portion of the issues of 6- and 12-month securities were distributed less than 6 and 12 months, respectively, before the liquidating. In the total volume of long-term securities issued in the first quarter of 1995, presented in Table 1, over 60 percent of the securities were distributed later than the date originally planned (and consequently, actually had a shorter circulation period).

Table 2. The Structure of GKO Distribution at Primary Auctions by Circulation Periods of the Bonds, in Percent, at Face Value

	Total	3-month	6-month	12-month
1993	100	95.6	4.4	—
1994	100	81.1	17.6	1.3
incl. 1st half year	100	92.0	8.0	—
July-September	100	72.0	26.9	1.1
October-December	100	83.5	14.6	1.9
1995				
January-March	100	66.3	31.5	2.2
April-June	100	76.0	22.6	1.4

The second quarter of 1995 showed that the state conceded in the struggle to increase the GKO circulation periods, and the proportion of GKO with long-term circulation dropped considerably. The main reason for this change in the situation can be seen in the concentration of efforts toward "inverting the GKO pyramid," including through a maximum increase in the volume of bonds distributed by means of a forced increase in the proportion of three-month bonds, more attractive to

investor banks. In addition, the attempt to introduce a new instrument — OFZ (essentially replacing the 12-month GKO) — naturally led to the restructuring of the market for 12-month bonds.

Federal Loan Bonds

OFZ were to a certain extent a copy of the 12-month (and partly the six-month) GKO. At the same time, in

designing the parameters for the issuing of this new instrument, the shortcomings inherent in the 12-month GKO were taken into consideration. In the first place, the flexibility in the formation of the income of the new instrument increased, as compared with the GKO. This will also lead to an increase in the liquidity of the market and to a lessening of the price risk for this instrument, which will in turn make market participants increase their investments in this instrument. In the second place, the new principle of establishing the OFZ income (which lies in tying the OFZ income to the income of several series of GKO) engenders considerably less risk for investments in OFZ as an instrument taken individually, which should also lead to an increase in the market capacity.

The first auction to distribute OFZ showed the guarded attitude of investors toward the new instrument: less than 59 percent of the bonds announced for distribution were distributed. At the same time, the volume of bonds distributed proved to be considerably higher than the volumes of earlier-distributed 12-month GKO. It seems that the new instrument has quite good prospects. Moreover, under the conditions of the approach of financial stabilization, in the next two or three years, OFZ may completely replace GKO, including the three-month (since the main component of the income of this instrument — the coupon income — is announced three months before payment and is paid out quarterly).

Internal State Currency Loan Bonds

The volume of operations with internal state currency loan bonds has increased somewhat more rapidly. Over 30 major banks and investment companies, which possess extensive networks of Russian and foreign clients, are presently coming forth as a market-maker on this market. In addition, the interest of foreign investors in this instrument has substantially increased. At the least, there are about 30 major foreign investors present on this market.

The adverse effect on the development of the market for these bonds continues. It is caused by the uncertainty surrounding the taxation of incomes from operations with these bonds. The income obtained in the form of the difference between the purchase price and the resale price before liquidation brings forth an ambiguous interpretation, from the standpoint of taxation, among various tax inspectorates. This uncertainty has led to transactions with the bonds in the first quarter being almost totally moved to off-shore areas.

Treasury Bonds

Of all the state securities, the sharpest rise in activity was noticed on the market for treasury bonds (KO),

issued to pay off the debts of the budget to Russian enterprises. About 50 major banks and investment companies handle operations with KO of 100 series and over. About another 100 market participants are working with a smaller number of KO series. At the same time, no unified market prices have yet been formed for some KO series; by no means all the enterprises who obtain KO know what to do with them.

The main positive result in the first quarter of 1995, however, is the fact that the market participants have worked out the chains according to which KO are circulated, by removing non-payments. The KO market has therefore formed a mechanism for solving the problem of non-payments.

The Probability of a Crisis Situation Arising on the State Securities Market

May 1995 was the month in which the destruction of the GKO pyramid was most likely. More than 6.5 trillion rubles [R] worth of GKO were to be liquidated (in April, the volume of liquidation was slightly over R3 trillion). For this, given the trend that had formed toward moving the income of the GKO, a sum of over R9 trillion worth of them would have had to be distributed at face value, the liquidation of which would in turn require the distribution (on condition that the rates of inflation which had formed, the index of the dollar exchange rate and the correlation between the volume of operations on the currency market and the GKO market were retained) of a total of R11.5 trillion worth in August 1995. As one would imagine, it was impossible to achieve these amounts, under the conditions of the unsuitability of regulatory measures of an administrative nature.

In our opinion, it was for this precise reason that the Central Bank and the Ministry of Finance decided to make the transition from measures of a purely economic nature (we have in mind particularly the establishing of the cut-off prices forming the GKO income, which would have made it possible to attract a sufficient amount of financial resources) to regulation of the GKO market, which also included administrative measures. The introduction of a reserve for bank currency accounts was also this type of measure. This measure was aimed primarily toward a major change in the correlation of the volume of operations on the currency and ruble markets, through sharply reducing the efficiency of currency operations.

The measure applied gave the necessary effect: on the one hand, the decrease in the efficiency of currency operations led to a reduction in the demand for currency and, accordingly, to a drop in the dollar exchange rate; on the other hand, this decrease led to extensive

redistribution of bank capital between the currency and the ruble market, in favor of the latter. Since on the ruble market, it is on the GKO market that the banks carry out low-risk operations, this measure made possible a substantial increase in the flow of money to the GKO market. The flow of money from the currency sector ensured an increase in the demand for GKO, which led to a rise in prices and a drop in the income on the secondary market and, accordingly, to a reduction in the auction income. The possibility of a May crisis on the GKO market was therefore eliminated.

Moreover, such an extensive change in the key parameters of the market led to a break in the trend of developing the GKO market, and to the formation of new trends at a higher level of capacity. In May, a total of over R11.5 trillion worth of GKO, at face value, were distributed, of which six-month securities accounted for over R4 trillion. Paradoxical as it may seem, under the new conditions, such a high volume of borrowing was no longer so dangerous. In analyzing the risk of the emissions body not fulfilling its obligations in the next few months, one should single out September, in the course of which over R10.3 trillion worth of GKO will have to be liquidated. This will be possible, on condition that the new trends of market development are maintained. However, on condition that the reserve for bank currency accounts will be abolished, and the inflation rates increase over 10 percent in a month, over R14 trillion worth of bonds will have to be distributed, which it will be impossible to liquidate. Nevertheless, it is highly unlikely that these two conditions will be imposed.

A danger of another kind seems more substantial. If there is an increase, the state could destroy the whole market with its administrative measures. The stiff measure, already introduced, on a reserve for currency accounts may place five or six of the largest banks on the brink of bankruptcy. Analogous measures of an administrative nature, working in the same direction, are impossible today, since they would make the position of the banks deteriorate to the limit. Therefore, if new crisis phenomena arise on the GKO market at a new level of its development, the state will be faced with a dilemma: either destroy the GKO market or destroy the banking system.

In addition, the use of these measures and similar ones of an administrative nature will entail two more dangers:

The administrative measures will be as easily abolished as they were introduced, especially since in this case they will infringe on the interests of a number of major banks which have the potential of solving the problems that arrive at a high political level. Abolishing the

reserve for currency accounts in today's situation may very quickly lead to a dramatic acceleration in the crisis trends on the GKO market;

The market participants can easily bypass the administrative measures, and it is therefore to be expected that the effectiveness of the measures introduced will be reduced, as the result of the market participants finding increasingly new ways to bypass the restrictions introduced.

The Market for the Stock of Privatized Enterprises

The General Characteristics of the Market for the Stock of Privatized Enterprises

Conflicting trends were observed on the market for the stock of privatized enterprises in the first six months of 1995. In January there was a sharp acceleration of the drop in the quotations of most of the shares. At the same time, it was discovered that a number of shares had a tendency to rise (MGTS, Mosenergo, shares in ferrous metallurgy enterprises and timber industry complexes). The reasons for this situation, on the whole unfavorable, are mainly political. In addition, inflation, the summing up of the results made by a number of major Western investment funds, and the overall change in the policy of controlling investment funds, marked by a decrease in investments in the developing markets, had an adverse effect on this market.

In February, the market began to revive, which affected virtually all the branch sectors. A number of the quotations of the more liquid shares rose quite considerably (Rostelekom — by 40 percent, the Bratskiy LPK — by 8 percent, some oil companies — up to 30 percent a month). This was primarily connected with the fact that, at this time, a few large Western portfolio investors would begin to operate on the Russian market; other large portfolio investors began to sell new investment tranches.

This increase was not stable, however, and in March the general state of the market could be characterized as expectant. The quotations for oil company stocks stabilized (in April they began to go down), the stocks of enterprises of other sectors increased negligibly or dropped, depending on the general sectorial market conditions. The following basic reasons for the cessation of the February revival on the market, which could have developed into a stable and long-term increase, should be singled out:

A considerable number of large foreign investors, who had intended to begin investing in Russia in the first quarter of 1995, suspended operations. The following

must be pointed out as the reasons why the investment managers made this decision:

The strategic redistribution of investments of extensive funds, in favor of more mature markets, linked to an increase in their attractiveness, and also linked to the sharp drop in the Mexican market;

The deterioration in the political situation in Russia in January 1995 (i.e., at the time when the parameters of investment volumes in Russia were being determined for the whole year);

The manifest inability of the Federal Commission on Securities and the Stock Market to protect investors from the arbitrariness of the emissions bodies and the register-holders (the major investors placed great hopes on the creation of this commission, but when, after a period of over six months, the commission had not started its work, these hopes were shattered);

The deterioration in the financial situation of many Russian banks, which had intended to start volume investments in the stock of privatized enterprises;

The delay in creating a normative base to regulate the securities market (for example, there was simply no law passed concerning the securities market), and the adoption of a new Civil Code, which substantially changed a number of the provisions on which the market participants based their operations;

The start of coordinated, concentrated short-selling, which the major foreign investors carried out (in particular, this game led to unprecedented depreciation of the shares of a number of oil companies, the RAO YeES, Noril'skiy Nickel and other enterprises).

The share quotations of the largest privatized enterprises began to rise in earnest in May. The market rose most sharply from 16 to 23 May. After this, the overheated market displayed a tendency to slump, which in mid-June was strikingly replaced by a marked stable rise. The rise in quotations in May-June stemmed from two basic factors:

1. Substantial capital from Russian banks overflowed into the market for the stock of privatized enterprises. This capital, crowded out of the currency market, was drawn by the possibility of working on the ruble assets market, fixing the dollar exchange rate. It was the market for the stock of privatized enterprises that made this possible;

2. Large tenders from foreign investors appeared on the market. The revival of foreign investor activity stemmed from the following factors.

A number of major Russian enterprises came close to solving the problem of putting their stocks on the foreign securities market, and the RAO YeES of Russia obtained permission from the United States Securities Commission to issue depositary receipts;

The improvement in the political situation in Russia and the obvious improvement in the economic situation in Russia, which led to a substantial lessening of investment risks;

The passage by the State Duma of a Law on the Securities Market, which was fully acceptable for modern-day Russia.

In addition, in the second half of May and in June, another factor, connected with the lowering of the exchange rate of the dollar in relation to the ruble, influenced share quotations in the direction of their rise. The prices for buying up shares from the work collectives were always expressed in rubles, while the major market operators, working with accumulated bundles, express the share quotations in U.S. dollars. With the drop in the dollar exchange rate, it began to be profitable for companies specializing in buying up shares from the work collectives and reselling to major operators to sell the shares at a stable exchange rate, expressed in dollars. Trying to maintain their reputation, they forced the major market operators to raise the dollar prices for buying up, and thus intensified the rising trend.

It should be noted that the arrival of bank capital on the market for the stock of privatized enterprises gave this sector of the market great stability and predictability. In May-June, the fluctuations in the quotations essentially smoothed out: as the presence of bank capital increased in a given sector, the smoothness of the share quotation movement increased considerably.

This stemmed from the fact that the mentality of the banks differed from the mentality of the investment companies and the financial brokers, who traditionally worked this sector of the market. The investment companies and brokers always went for a risk in the hope of a high profit norm (in this case the large foreign investors simply bought up the shares at the market price). Banks proceed from the reverse idea: having established for themselves a profitability norm

of 30-40 percent annually, in U.S. dollars, they close the position as soon as the market has reached prices which make it possible to obtain the required income. In this case the banks completely ignore the possibility of maximal growth and the consequent obtaining of maximal income. The banks, which are less risk-taking gamblers, have also introduced great reliability in the market for the stocks of privatized enterprises as a whole.

On the other hand, bank capital has not yet taken root on the market for privatized enterprise stock, and extensive alterations in the investment characteristics of various financial markets (the currency and state securities market, credit and stock market), not in favor of the stock market, may therefore, in the future, also lead to an intensive outflow of bank capital from the market for privatized enterprise stock.

The outlined rise on the market has primarily affected the most liquid and well-known stocks, particularly those which had earlier experienced a profound drop. By the end of June, the quotations of some shares had increased several-fold over the end of January (Rostelekom — by a factor of 2.75; Mosenergo — a factor of 2.5; Noyabrskneftegaz — a factor of 2; Kogalymneftegaz — a factor of 2.2; Irkutskenergo — a factor of 2; Kondopoga — a factor of 3). This led to a substantial increase in the capitalization of major Russian enterprises (see Table 3).

Table 3. Capitalization of Enterprises According to the Condition on 27 June 1995, U.S.\$ mln

Joint-Stock Company	Number of Shares	Quotation, \$	Capitalization
1. Neftyanaya Kompaniya LUKOyl(*)	649,594,186	6.0	3,898
2. Gazprom	23,673,512,900	0.12	2,841
3. RAO YeES of Russia	139,989,946	9.6	1,344
4. Rostelekom	186,750,080	5.5	1,027
5. Norilskiy Nikel	125,999,916	7.0	882
6. Surgutneftegaz	5,384,347,600	0.16	861
7. Mosenergo	2,560,000,000	0.315	806
8. Yuganskneftegaz	53,366,690	14.9	795

Joint-Stock Company	Number of Shares	Quotation, \$	Capitalization
9. KAMAZ	505,353,630	1.5	758
10. Noyabrskneftegaz	78,545,000	5.8	456
11. MGTS	1,277,267	220.0	281
12. Irkutskenergo	47,668,077	5.8	276
13. Purkneftegaz	111,365,000	2.35	262
14. Krasnoyarskiy AZ	13,478,536	17.9	241
15. Tomskneft	45,032,000	4.7	212
16. Megkneftegaz	132,209,120	1.6	212
17. Chernogorneft	26,771,420	7.75	208
18. SPTS	15,550,000	10.5	182
19. Nizhnevar-tovskneftegaz	18,217,283	9.5	173
20. Novolipetskiy MK	5,987,240	27.5	165

At the same time, the redistribution of capital that was constantly taking place in favor of the smaller enterprises served to give rise to markets of a very large number of shares. The stocks of over 10 pulp-and-paper combines, 5-8 each of ferrous metallurgy, communications and power engineering enterprises, and 6 mining-concentrating combines obtained market ratings in the first quarter of 1995 (i.e., became fully liquid, with an all-market quotation formed for these shares). The process of drawing new shares into the operation of major market participants was less active in the second quarter, but a few timber industry complex, machine-building and communications enterprises still proved to have market ratings.

The Changes in the Behavior of the Emissions Bodies

Serious positive changes were also noted in the behavior of the emissions bodies in this sector of the market. A number of major enterprises stand out for seeing potential sources of future investments in the securities market. Despite the fact that it is still too early to talk about any specific steps in this direction, many enterprises have already announced their plans for new share emissions to attract investments.

The proportion of enterprises which recognize legal rights for their stockholders has considerably increased. Attempts at cooperation (inclusion on the Board of Directors, development of investment programs directed toward seeking a strategic investor, easing the procedure for re-registering stocks, etc.) have come to take the place of methods of fighting with outside investors, which resulted in gross violation of their rights.

The sharp increase in the proportion of enterprises (as compared with 1993) which pay dividends on common stock, as well as the general rise in the rates of the dividends on common stocks, can be considered the most significant step in this direction. While, according to the results of 1993, only a small proportion of large enterprises (less than 10 percent) paid dividends, the meetings of stockholders of major enterprises that took place in the first quarter, in 80 percent of the cases (if you consider only the break-even enterprises, i.e., enterprises having the right to pay dividends) decided to pay dividends on common stock. In this case the level of dividend payments was fully comparable with the rates of the money market. Here are just a few examples (see Table 4).

Table 4. Rates of Dividends on Common Stock of Major Enterprises for 1994, percent.

Enterprise	Dividend Rate	
	for common stock	for preferred stock
Achinskiy NPZ	468	8,116
Bratskiy Alyuminiyevyy Zavod	100	n.d.
Bratskiy LPK	100	n.d.
Vologdanefteprodukt	300	300
GUM	350	350
YeES of Russia	200	n.d.
Kaliningradmorneftegaz	250	n.d.
Kachkanarskiy GOK	10,000	n.d.
Kiryashinefteorgsintez	100	2,886
Kirovskiy Zavod	100	900
Kogalymneftegaz	175	350
Kodasskiy TsBK	2,000	n.d.
Krasnyy Otkryabr	170	n.d.
Langeparneftegaz	170	370

Lenenergo	100	532
LOMO	100	588
LUKoyl	400	400
Moskovskiy NPZ	110	330
Murmanskoye MP	300	n.d.
Novolipetskiy Metallurgich. Kombinat	200	n.d.
Novosibirskoye MP	200	600
Novosibirskiy Olovnyanyy Kombinat	100	n.d.
Norilskiy Nikel	400	1,325.6
Omakiy NPZ	1,500	7,476
Priargunskoye GKhpO	298.3	467
Ryazanskiy NPZ	450	1,200
Samarskaya Metallurgich. Kompaniya	250	n.d.
Sverdlovskenergo	100	300
Syyazinform (Samara)	100	2,330
Serovskiy Zavod Ferrosplavov	600	n.d.
Sikarskiy Trubnyy Zavod	161.5	n.d.
Sokolskiy TsBK	120	n.d.
Staroskolskiy EMK	150	n.d.
Udmurtneft	2,500	4,900
Chernogorneft	100	n.d.
Elektrosvyaz (Volgograd)	880	2,310
Elektrosvyaz (Tver)	100	n.d.
Yaroslavinefteorgsintez	680	904.6

Note. The table gives only the enterprises which paid dividends on both preferred and common stocks. At the same time, there were a considerable number of enterprises which did not pay dividends on common stock, but paid out over 1,000 percent annually on preferred stock (Magnitogorskiy Metallurgicheskii Kombinat, Mezhdugorodnyy and Mezhdunarodnyy Telefon of St. Petersburg, the Moscow Municipal Telephone Network, the Novosibirskaya Municipal Telephone Network, Rostelekom, Elektrosvyaz of Novosibirsk Oblast and others).

Three basic reasons for this change in behavior should be indicated:

The increase, in the structure of the stockholders, of outside investors, interested in obtaining dividends, and

capable of exerting an influence on the administration of the enterprise;

The appearance of administrative concern, at a number of enterprises, for the condition of the market for the stock of their enterprise, stemming from hopes for future attraction of investments on the securities market;

A certain improvement in the financial condition of most of the enterprises.

At the same time, the quotation difference, not the dividend payments, is still the basic component of the investor's income. Even with respect to the indicator, "dividend-quotation," however, a substantial rise is noted for common stock, which attests to the firm intentions of a number of emissions bodies to attract investors, including high norms of dividend payments (see Table 5). Krasnyy Oktyabr, Noril'skiy Nikel and the RAO YeES are doing the most persistent work in this direction. At the same time, at a number of enterprises, the shares of which belong to a limited group of stockholders and have no liquid market, this indicator is beginning to go off the scale (for example, it is 75.7 for Udmurtneft shares, which attests to the payment by the managers themselves of high rewards in the form of dividends on the shares belonging to them.

Table 5. Relationship Between the Dividend and the Quotation Value of Common Stock.

Enterprise	Dividend rate for common stock	Relationship of dividend and quotation, %
Achinskiy NPZ	468	2.6
Bratskiy Alyum. Zavod	100	0.8
Bratskiy LPK	100	0.6
Volgogradskiy Alyuminiy	7	0.1
Vologdanefteprodukt	300	7.8
GUM	350	1.4
EU of Russia	200	2.8
Irkutskenergo	25	1.2
Kirishnefteorgintez	100	0.7
Kogalymneftegaz	175	0.7
Kosmos	50	5.2
Kotlaskii TsBK	2,000	4.3
Krasnyy Oktyabr	170	8.1

Enterprise	Dividend rate for common stock	Relationship of dividend and quotation, %
Langepasneftegaz	170	1.3
Lenenergo	100	1.1
Lipetsktsment	25.3	0.0
LOMO	100	0.6
LUKoil	400	0.1
Moskovskiy NPZ	110	0.9
Mosenergo	2	2.5
Murmanskoye MP	300	2.7
Novolipetskiy Metallurgicheskiy Kombinat	200	2.0
Novorossiyskoye MP	200	0.9
Novyabenergo	50	3.1
Noril'skiy Nikel	400	3.2
Serovskiy Zavod Ferrosplavov	660	0.8
Chernogorneft	100	0.4

The second substantial change in the behavior of major Russian production enterprises is that those emitting shares have become aware of the need to search independently for sources of long-term investments. The result is the persistent work of many enterprises to seek ways of putting their shares on foreign markets, in order to attract the investments of major foreign investors. The start of this process dates back to the middle of 1994, when a few large enterprises began independently to work out variants for putting their stocks on Western markets. They worked out several potentially possible variants for putting out the shares, but the managers of these companies had an extremely superficial approach to the problem. Real results of the striving of Russian enterprises toward Western markets therefore began to appear only when they linked Western consulting firms and investment banks to this process. Because these were mostly American companies, the main path which the Russian emissions bodies began to adhere to was the issuing of American depositary receipts (ADR).

The Problems of Attracting Investments in Russian Enterprise Stock

At present, the process of seeking investments is being carried out blindly by both enterprises and the state, without a well-worked-out plan and guidelines. It ap-

pears that this situation may also have negative results, directly related to national security.

In the first place, the potential investors who are most likely to invest in the stocks of privatized enterprises should be precisely indicated. In our opinion, they are:

Foreign institutional investors;

Russian banks and large investment and holding companies;

Russian citizens.

An unjustified underestimation of the financial potentials of Russian banks and citizens, made by emissions companies and also, in an intermediary way, by the state, has recently been observed.

In the second place, the goals of attracting investments must be determined. There are two of them:

Ensuring an income for the budget through the sale of stocks belonging to the state;

Financing investment plans at an emitting enterprise.

In the third place, investments may be obtained from the sale of stocks:

Of the first issue;

Of the third issue (the issue following those made as the result of the need to register the re-evaluation of fixed capital in the charter capital).

As a rule, shares of the first issue are distributed by the state, and the shares of subsequent issues — by the enterprise.

On the basis of the above comments, four basic ways of attracting investments in the stocks of Russian enterprises, which are possible and effective under Russia's conditions today, should be singled out:

Issuing Depositary Receipts

Shares in Russian enterprises, for circulation on world stock markets, are their guarantee. Russian enterprises may issue American, British and global depositary receipts. At the same time, in the majority of cases, the issuing of depositary receipts is suitable for both distributing new issues of shares and for distributing shares of the first issue, which are presently partially owned by the state.

As experience has shown, the mere announcement of the readiness to put their shares on Western markets by means of ADR leads to a rise in the quotation value of the shares. The guarantee, through this mechanism of access (through the issue of ADR and other analogous instruments), for major conservative foreign investors in

Russian stock, will really lead to a substantial (several-fold) rise in the quotation value of the shares and will make it possible for the state to sell the bundles of stock of privatized enterprises that are in their possession, at an increasingly high value. The receipts from the sale of the share bundles at high prices may become a major source of income for the state budget.

In distributing the shares of subsequent issues, the use of the ADR mechanism and other analogous instruments will make it possible to put these shares on an American stock market, potentially unlimited from the standpoint of financial resources.

At the same time, this mechanism also has definite shortcomings, which, under the conditions of a total absence of normative regulation of this process, may have negative consequences. The following consequences should be indicated:

After a considerable number of shares have been transferred to the ownership of foreign investors, the fact that there is a sizable proportion of depositary receipts in the total volume of the share issue leads to a shift in the basic volumes of trading in shares of the most attractive Russian enterprises on Western markets: as a result of this, the development of the Russian stock market, particularly its infrastructure, will be substantially delayed;

The quotation for depositary receipts may be detached from the quotation for the shares which are the basis of the receipts. Under conditions in which the volume of trading in receipts on Western markets predominates over the volume of trading in the actual shares on the Russian market, the price beacon will be the quotation for the depositary receipts. The quotation for the Russian shares will therefore be formed on Western markets, but the Russian participants in the market will be cut off from the process of price formation.

To eliminate the possibility of these unfavorable trends arising, the state must adopt norms for issuing depositary receipts for the total volume of the share issue, and must also regulate the process of issuing depositary receipts. If these measures are present, the issuing of depositary receipts (on condition that the approach to the issuing process is a qualified one) will be an effective way of attracting investments in the stocks of Russian enterprises.

The Creation of Holding Companies

In contrast to the above-described means, the creation of holding companies is target-oriented, not only toward foreign investors, but also toward domestic ones. As the practical experience of the Russian stock

market has shown, the formation of holding companies leads to a rise in the quotation value of the shares of the holding companies themselves as well as those of the branch companies. The movement of the share quotations of LUKoil-Holding, LUKoil-Korolymneftegaz, LUKoil-Langepasneftegaz, LUKoil-Urayneftegaz, YUKOS, Yuganskneftegaz and Samaraneftegaz serves as a more graphic example of this perspective. The gradual privatization (sale of stock) of the holding companies at auctions calculated for both foreign and domestic institutional investors and for small-scale private investors, may ensure large receipts for the budget. In addition, the second and succeeding emissions of shares in holding companies may be more successfully distributed on the domestic and foreign stock markets than the shares of individual branch companies. The creation of holding companies forms the prerequisites necessary for transferring some of the functions of the state with respect to controlling the portfolio of bundles of privatized enterprise stock.

Among the shortcomings of this route should be indicated, in particular, the danger of the control functions being usurped by the holding structure created by means of administrative methods. The possibility of holding for operations control and intervention in uncharacteristic spheres should therefore be limited. In addition, it would seem reasonable, when transferring large bundles of shares as a contribution to the charter capital of the holding companies, to automatically convert these companies into financial holding companies, in accordance with Russian Federation legislation.

This course has been proven in several sectors. Here, all the existing cases may be subdivided into three types:

Creation of a holding company on the basis of several companies, closely related either technologically or geographically, which would account for less than 30 percent of the production of the given sector (an example may be LUKoil, YUKOS, SIDANKO and other holding companies of the oil-extracting sector, apart from Rosneft);

Creation of a holding company on the basis of enterprises which are not part of a joint-stock company — a national monopolist in this sector (communications may serve as an example — in this sector the Svyazinvest Company was created, which possesses 35-percent bundles of regional communications enterprises not included in Rostelekom);

Creation of a holding company based on all the enterprises of a given sector, indiscriminately.

Transfer of Shares to a Trust

It is reasonable to make this transfer for a period of one to three years, in order to increase the investment attractiveness of an enterprise and the quotation value of its stock. This course is applicable only to shares of the first issue (shares owned by the state). Its sense lies in selling shares assigned to the state at a maximally high price.

Two ramifications are possible within the framework of this course:

a) Transfer to fiducial management, with subsequent redemption (trust with an option).

In this case, there must be competent establishing of the real market price of the enterprise, in accordance with which the price of selling the option is established, i.e., the price at which the manager of the trust buys shares after the expiration of the period in which the agreement on the trust is in force. Establishing a high, unrealistic price for exercising the option will stimulate the manager to carry out measures (both operations on the open market with the shares of the given enterprise and implementation of investments) which contribute to the quotation of the shares in this enterprise rising above the price of exercising the option.

b) Transfer to fiducial management, with the establishing of commissions for the manager (trust without option).

In this case, the compensation for the manager should be established as a percentage of the difference between the capitalization of the enterprise at the point of expiration of the period in which the agreement on the trust is force and the capitalization of the enterprise at the point when the agreement on the trust is made. The manager is interested in increasing the quotation value of the shares; the state gains the possibility of selling a bundle of shares in a certain time (at the point of expiration of the period in which the agreement on the trust is in force), at a higher price.

Subvariant "a" may be recommended for cases in which a strategic investor comes forth as manager; subvariant "b" is more suitable to a case in which a portfolio investor is the manager.

The greatest shortcoming in this course is the need to transfer a bundle of shares in trust for a long period to a manager who may not be able to cope with the task set (because of lack of ability, or lack of desire, stemming from the difference in the interests of the founder of the trust and the manager), and this manager must therefore be selected with particular care. In addition, in this case, there is a great possibility of a deal between the state

officials and the manager with respect to the question of establishing the price of exercising the option, and it is therefore necessary for several independent expert groups to take part in establishing this price.

Underwriting Shares Without Issuing Depositary Receipts

This course is applicable for distributing both shares owned by the state (shares of the first issue) and the shares of following issues. This course may to a great extent be oriented toward Russian investors, primarily toward the people. Unfortunately, up to now, Russian privatized enterprises have not had resort to the services of investment institutions in the profession of distributing the securities of third persons (i.e., specialized underwriters). The only experiment in this direction is the distribution of the shares of the Krasnyy Oktyabr AO. Despite the non-professional execution of this plan, it proved capable of attracting considerable financial resources. It appears necessary to implement legislative changes aimed at placing underwriters on the same footing (from the standpoint of taxation) with emissions bodies, and also to stimulate other methods of developing this type of investment business in Russia.

The main shortcoming of any of the above-listed courses lies in its lack of comprehensiveness. Using only one of the approaches in the process of selling or distributing the shares of an individual enterprise is considerably less effective than using several mutually complementary ones. This diversification of approaches considerably reduces the shortcomings of each course individually.

Other Sectors of the Securities Market

In addition to the two leading sectors of the Russian securities market, state securities and the stock of privatized enterprises, there are also markets for municipal bonds, bank stock and enterprise bonds, and a securities market oriented toward the population.

The municipal bond market continues to develop. In the first half of the year, according to preliminary data, about 50 components of the Federation worked on organizing issues of municipal bonds, using the GKO system. By the end of June 1995, at least five Russian oblasts (St. Petersburg, Sverdlovsk, Perm, Chelyabinsk and Novosibirsk oblasts) had formed a liquid, well organized market of oblast short-term bonds. About another ten regions went to a procedure of continuous distribution of bond issues.

In June 1995, a leader appeared in the municipal bond sector. It was St. Petersburg. At present, five issues of St. Petersburg municipal bonds (SPMO) are in circulation simultaneously; the July monthly volume of exchange

trading on the secondary market was, according to preliminary data, about R200 billion. Despite the fact that the data on the volume can still not compare with the trading volumes of GKO, the rapid development of this sector will in the near future lead to serious competition for federal bonds at the regional level.

In this sector, there clearly appeared a transition from issuing bonds for which apartments were to be made available to issuing bonds directed toward financing the deficit of the local budget. This trend stems from the relatively lessened urgency of the housing problem in large cities (since the beginning of the year, an obvious trend has been observed toward a reduction in the market value of an apartment of medium or low quality, because of the relative exhausting of the solvent demand for this type of housing), and also from the decreased construction efficiency (the difference between the cost of building an apartment, including the production cost of an apartment turned over free of charge to municipalities, and the market value, which has been reduced to the minimum). In addition, changes have taken place in the structure of the investor in the provinces, in connection with the increase in investment interests in instruments of the GKO type. These changes lie primarily in a reduction in the proportion of small private investors and the appearance in the regions of quite strong institutional investors (primarily through an increase in the branches of Moscow financial structures).

Investors are paying increased attention to bank stock. This turn in interests is linked to the fact that the rise in the share quotations of a number of banks has exceeded the rise in quotations for the stocks of privatized enterprises, and the size of the dividends in a number of cases was also quite high. On the whole, this has created a high income for some bank stock.

The issuing of loan bonds by production enterprises remains a rarity. Large enterprises have attracted resources through issuing bonds only twice in the preceding period; in the first quarter of 1995, the LUKOyl Oil Company officially announced its readiness to issue bond loans. It is assumed that the distribution of these bonds will begin approximately in September. The main reason for producers' not wanting to use bonds to attract investors is simple: in this case, recovery of funds loaned is inevitable, while today's level of control over the fulfillment of obligations by large enterprises makes it possible for them to avoid paying off debts for a long time.

The increase in banks issuing bonds, observed in the second half of 1994 and the first quarter of 1995, will most probably be replaced by a refusal to issue them, since the Central Bank has begun to re-establish

a reserve for loan bonds. Under the conditions of an increase in free financial resources, this measure can only lead to the disappearance of bank bonds.

The Exchange and Off-Exchange Market

During the first six months of 1995, the position of most of the Russian stock markets continued to deteriorate. If we look at the structure of the Russian securities market, without taking into consideration the GKO trading assigned to the Moscow Interbank Currency Exchange (MMVB), we note a sharp redistribution of the trading volume, in favor of the off-exchange market. The turnover of the overwhelming majority of Russian exchanges was insignificant (less than R100 million in the month). The reason that this situation developed is the erroneous policy which Russia's stock exchanges followed in 1993-1994, consisting, in the first place, of obtaining immediate incomes to the detriment of work on creating reliable exchange mechanisms for trading and the necessary elements of the infrastructure (depositories, clearing centers), and in the second place, of orientation toward speculative securities and, accordingly, to small investors, while ignoring the more promising sectors of the market — state securities and the stock of privatized enterprises.

During the second half of 1994 and the first quarter of 1995, the following trends were noted in the development of stock markets in Russia:

A further reduction in the proportion of exchange trading in non-state securities;

Concentration of trading on a limited number of exchanges; in this case, virtually all the trading in surrogate securities was concentrated on the Central Russian General Exchange (TsRUB);

The redistribution of turnover in favor of regional exchanges; formation of large regional centers of exchange trading;

The increase in the proportion of secondary turnover.

In addition, a trend was noted toward redistribution of the exchange turnover of non-state securities in favor of the stock of privatized production enterprises, through gradually crowding the share deposit certificates and other similar securities substitutes out of the exchange turnover.

At the same time, beginning in May of 1995, some stock markets were able to reorient themselves toward the organization of trading in oblast and municipal long-term bonds, which was the start of their revival and a prerequisite for the future or present (for the St. Petersburg TFB, the St. Petersburg Stock Exchange, the Yekaterinburg Stock Exchange, the Siberian Stock

Exchange and the YuzhnoUralskiy Stock Exchange) rapid rise in the volume of exchange trading. By the end of the first six months, a number of exchanges prepared and launched fully civilized mechanisms for trading the stock of privatized enterprises, including, apart from the trading system proper (as a rule, electronic), depository and clearing systems as well. The leaders in this movement were the Vladivostok International Stock Exchange, the Moscow Central Stock Exchange and the Russian Exchange (the former RTSB).

During the entire first half of the year, currency exchanges were also actively advancing on the securities market.

The non-exchange market still most closely resembles the developed market in Western countries, primarily from the standpoint of singling out the organized off-exchange market within its framework. In the first six months of 1995, two different sectors of the off-exchange market could already be observed:

The organized off-exchange market, represented by the telecommunications trading systems;

The non-organized off-exchange market, consisting of the telephone market and the strictly street market.

Telecommunications trading systems on the whole continue to develop successfully, due to the efforts of their owners — professional associations of market participants, as well as Western consultants. At the same time, it must be noted that not a single telecommunications system has so far fully worked out the technology of securities trading. As experience in the functioning of the Moscow Telecommunications system has shown, the obstacle on the path of successful development of these structures is to a considerable extent the lack of state control over the adherence of the market participants to the provisions of the normative acts. Another serious shortcoming is the lack of efficient technology for depository and clearing service for the participants in the telecommunications trading systems.

The participants in the Moscow professional organization are making the greatest advances in improving the organization of an off-exchange trading system. According to conditions in June 1995, they had passed several measures which substantially increased the organization of trading in the Portal Market system:

They introduced a system of singling out the market-makers who were constantly obliged to quote at least five stocks (including three each with two-way quoting). According to conditions on 27 June, 16 market participants were market-makers;

They laid the principle of dividing securities into registered (admitted to trading) and securities included on the quotations list;

They established limits for displaying quotations: the offer for sale (purchase) must not differ from the best offer of the corresponding direction in the trading system by more than 10 percent;

All the quotations must be only firm ones, i.e., the participants in the system do not have the right to refuse to conclude transactions with respect to the quotations they have displayed.

These measures have led to creating, within the framework of the trade system, a degree of organization inherent on large European stock markets. As the result of this (and also as the result of the general revival on the market for the stock of privatized enterprises), the average daily turnover in the system (just with respect to registered transactions, which, according to the data of experts, constitute less than 20 percent of all the transactions between participants in the system) exceeded \$1.5 million in June.

The non-organized off-exchange market. This sector of the securities market developed more dynamically in the course of the last six months of the year. Two subsectors are clearly singled out within the framework of the non-organized off-exchange market: the telephone market and the strictly street market.

The telephone market. The overwhelming majority of transactions on the markets of state internal currency loan bonds and the stock of privatized enterprises are carried out by means of the telephone and other telecommunications devices. Naturally, no infrastructural services, apart from strictly communications services, are required to conclude telephone transactions. At the same time, concluding transactions by telephone is based on the market participants' knowledge of each other and on the mutual trust of the market participants.

The street market. The non-organized off-exchange market is mainly represented by transactions with the securities of investment funds and joint-stock companies specializing in attracting the funds of the population, and also by surrogate securities. The basic infrastructural element on this sector of the market is the stock shop.

The stock shop is a specific institution of the stock market, specializing in small operations with securities, with the participation of the population. It is a unique way of organizing "retail trading" in securities, characteristic only of Russia. There are two main reasons for the rise of stock shops in Russia:

Russia's lack of a "middle class," i.e., private investors who have sufficient funds available for operations with standard bundles of securities (100 each, 1,000 each);

The lack of normative acts regulating the activity of these institutions.

*Aviatika Director Welcomes Foreign Collaboration
957A1094A Moscow ROSSIYSKIYE VESTI in Russian
31 Aug 95 p 3

[Interview with Igor Pyankov, director of the Aviatika Aircraft Construction Company, conducted by Ivan Vladimirov, RV correspondent: "Stupid Lobbying Is Destroying Russian Aviation"; date and place not given]

[FBIS Translated Text] Despite the note of bravura at the Moscow Aerospace Show held in Zhukovskiy, the lamentable state of Russian aviation was all too obvious. The wounded pride of the aircraft builders and their present psychological catastrophe only intensify the technical catastrophe. In an interview with RV, Igor Pyankov, director of the Aviatika Aircraft Construction Company, reflects on ways for the sector to get out of the crisis and the feelings of the production-entrepreneur under today's economic and political conditions.

[Vladimirov] Even a person who is poorly informed about aviation knows that the domestic fleet of airplanes has in many ways worked out its service life, and that our country is not making any high-quality motors or efficient on-board electronic control systems. These are seemingly the key words characterizing the sector. It has all been said — true?

[Pyankov] Completely true. We have run into both stupid lobbying and stupid protectionism in the sector.

[Vladimirov] Whose lobbying?

[Pyankov] Industrialists, managers. I do not know who forced through the decision on the high customs duties on foreign engines and electronic control systems for our airplanes, but it was frank stupidity. As a result, the sector is working for self-survival, not for the consumer of its products. No one even thought about the end product — a competitive airplane — when they made these decisions.

[Vladimirov] Yevgeniy Yasin, the minister of Economics, named the aerospace industry as one of the two priorities for state support as far back as last fall, for which, incidentally, many people roundly cursed him. So, perhaps the state is not in a position to "feed up" this sector? Perhaps something has changed since then?

[Pyankov] The state underfinanced even the existing program for civil aviation construction. The investment

schemes which provided government guarantees for profitable projects were not actually carried out. There is also another problem, however. At one time Aleksandr Livshits said in an interview that enterprises of the same sector often differ considerably from each other, from the standpoint of economic prosperity. The reason — differences in styles and administrative efficiency. The same thing is now happening in aviation. There is a very interesting process going on in the formation of today's firms. I do not mean "firms" in the former meaning of the Sukhoi firm, the Yakovlev firm, the Mikoyan firm. These are ordinary design bureaus, which have broken loose from the general technological chain. But here you have the Ilyushin firm today, incidentally headed by the KB [design bureau], that is, the brain — a real firm in the Western sense of the word, which combines the whole innovative cycle from conception to sales and service of the finished article. This makes it possible for them to work more productively.

If we talk about what the state policy toward the aerospace field should be like, we must still determine whom the state will help, and in what way. Each of the KB existing in Russia is unique. There is no tension here. On the other hand, though, there are more KB and aviation plants in Russia than in any other country in the world. Given our gross national product, as compared with the Italian one, it is simply beyond our power to maintain (or "support") the entire aviation industry.

[Vladimirov] Perhaps salvation lies in financial-industrial groups, about which so much has been said lately?

[Pyankov] I can see no panacea in FPG [financial-industrial groups]. For them it is like clutching at straws, because they are given limited tax benefits.... This is only a new way of milking the state budget.

This is what is happening, in my opinion. Really, a merging of bank and industrial capital is taking place — we all went through this in school, when we studied imperialism. Financially incompetent people are heading the powerful production structures. Under the conditions of a lack of cheap working capital, an enterprise naturally finds itself, first in mild and then in stiff dependence on the bank. For the economy as a whole, this is good, because a person who is the only one that has the skill to be in command of production, while at the same time understanding nothing about financial relations, nor about selling his products, should not manage a plant, an enterprise or a firm. So the point lies not in the form — the FPG or something else — but in the new principles of economic administration within the sector and at individual enterprises.

There is another point. Let us take as an example the Boeing-737. This is an old airplane, which is being continually updated. It now has a new engine, but in reality it is the same airplane. America is taking the course of updating, and ventures a new type of airplane only if there are sizable funds or an urgent objective need to make a cardinal change in something. We, however, have gambled on airplanes new in principle, which at one time were widely publicized — the Il-95, Tu-204, Il-114. Well? What took place is what they call a multiplication of risks. The risk of failure to develop a good engine multiplied by the risk of the failure to develop a good onboard system and the risk of the failure to develop a glider plane. The result of the whole triad was the development, and indeed, with imported equipment (despite all the customs barriers!) of what can be called only the Il-96.

Let us put ourselves, however, in the position of the director of a major aircraft construction enterprise or the chief designer. He knows that the old fleet of planes must be written off all the same, that it will soon begin to rain down, in the literal sense of the word, from the sky to the ground — the pilots of international airlines are already afraid to fly on domestic lines as passengers and prefer to go by train. It seems to me that many people are beginning to become parasites over this: they say, all the same, the state will help us.

I am not calling for a return, conventionally speaking, to a system of party elections, but there should be rigid monitoring of fulfillment of the state programs.

[Vladimirov] The international aviation show in Zhukovskiy ended recently. This time, for some reason, you were very modestly represented there. Why?

[Pyankov] Well, because there were only spectators there, not buyers. A sort of post-perestroika aviation VDNKh [Exhibition of Achievements of the National Economy of the USSR]. The main result of a show is that contracts are concluded. If there is none of this, then we are dealing with an aviation exhibition, not an aviation show. Russian politicians, of course, were given the opportunity, on the eve of the elections, of standing out vividly against a background of high-technology products, but I am not planning to pay for their pre-election show. If an Air Code is finally adopted this year or next, a mass purchaser of passenger airplanes will really appear in our country. Then we will not stint on publicity.

If we talk about the future, the way out of the crisis is, in principle, clear. When Mikaylov, the director of the Ulyanovskiy Aviation Complex, thumps his chest five times and shouts that he, instead of making wings for Russian airplanes, is forced to make wings for English

airplanes, his pathos is completely incomprehensible to me. It is a very good thing when the level of technology makes it possible for us to do something for "Jet-Streams"! After all, this means preserving our work places and our industry, this is an open door to international integration. There is something else worse. When a very serious KB was commissioned, for production experience, to make a small number of tail assemblies for French Falcons, and ours flopped.... The point is, after all, not that we crawl on our knees before the West or do not crawl. If we make something for Boeing, it raises our level of technology and as a result helps the domestic II's.

Incidentally, according to Western predictions, the Su-27 and the MiG-29 are among the most saleable airplanes in the world. Not everything is so dismal....

***Political, Economic Role of Fuel, Energy Complex Viewed**

954F3207A Moscow *SEGODNYA* in Russian
15 Aug 95 p 3

[Article by Candidate of Economic Sciences Yakov Pappe, senior scientific associate, Institute of National Economic Forecasting, Russian Academy of Sciences: "The Kind of Russia the Domestic Fuel and Energy Complex Needs: 'Gas Generals,' 'Oil Barons' and Coal Miners Measure Their Motherland by Different Yardsticks"]

[FBIS Translated Text] The standard national economic approach to analyzing the Russian FEC [fuel and energy complex], under which the fundamental question is "What kind of FEC does Russia need?", is no longer adequate to the task. Gas, oil and coal are more than products and the industrial complexes producing them. They are huge socioeconomic and perhaps even sociopolitical entities which have demonstrated on several occasions that if they define a goal, they will reach it. And the process of defining goals and developing the strategies is proceeding at full steam. The collective wisdom of the elite in the sectors of the FEC is not a metaphor but a reality.

Consequently we need to pose the flip side of the question as well: What kind of Russia does the FEC need? As it turns out, there isn't a simple answer to this question. The ideal model of Russia differs in the minds of representatives of gas, oil and coal industry.

Generally speaking this is no surprise. To talk about Russia's fuel and energy complex as some kind of economic, institutional and even sociopolitical whole today is nothing more than intellectual inertia, and the only thing that supports this practice is the name of the corresponding ministry. It was actually obvious back in

the early 1990s that the different sectors of the fuel and energy complex have fundamentally differing prospects and interests, and completely different situations have established themselves within them.

1. Gas

The gas sector has been affected by the economic crisis less than all others, and it survived the sociopolitical upheavals of the last decade with the fewest losses. Gas extraction fell insignificantly in the 1990s. The reserves in zones of activity of all gas extracting associations are far from exhausted. In addition there is an obvious sectorwide reserve—the huge deposits on the Yamal Peninsula and the shelf of the Arctic Ocean.

The sector was and continues to be a single industrial complex. This unity is not a legacy of the accursed past. It owes its existence objectively and primarily to the existence of a unified system of gas mains and their certain existence into the foreseeable future. As well as by the fact that the main strategic direction for development of Russia's gas complex—developing the Yamal deposits—can be supported only by the efforts of the entire sector.

And so, the following are the key characteristics of the sector as an industrial system: a stable position, a natural monopoly, and the obvious advantages of centralizing resources over their decentralization. And the fact that the sector is not simply a major exporter but a strategic player in the world gas market, or at least in the European one.

The gas sector's administrative system is fully in keeping with its objective position. The gas sector is a special unified firm—the Gazprom RAO [Russian Joint-Stock Company]. The Gazprom RAO is the direct successor of the USSR Ministry of Gas Industry, and in this case the transformation was the least painful among all other sectors (including atomic, space and other defense sectors). The controlling interest in the Gazprom RAO will be in the hands of the state for a minimum of several years.

The Gazprom RAO concerns itself with extracting gas (eight gas extracting associations), transporting it inside the country (13 regional gas pipeline transport enterprises), and its export (the Gazekspost foreign commercial enterprise).

The gas extracting associations and pipeline transport enterprise in the Gazprom RAO are actually its productive subdivisions. While they possess the status of legal entities, they do not own their own assets, including the mineral rights, and they do not dispose of the profits they receive. (From a legal standpoint these are unitary

enterprises founded by the RAO. But the currently effective Civil Code permits unitary enterprises only on the basis of state ownership. Consequently before the end of 1999, the gas extracting and gas transporting enterprises will have to return to the "legal fold"—either forfeit their status as legal entities, or become subsidiary joint-stock companies. From my point of view the former is both more probable and more preferable).

In addition the Gazprom includes several dozen specialized industrial and construction enterprises and scientific institutions working in the gas sector with the rights of subsidiary joint-stock companies.

The gas elite possesses the strictest hierarchy and tightest discipline among the economic elites. It is comparable in terms of these parameters with the military, and it differs dramatically from, for example, the petroleum elite. In particular, we know of no cases in which any authoritative representative of gas industry has publicly stated opinions differing from those of the management of the Gazprom RAO. The term "gas generals" brings a very precise image to mind, while oilmen are more likely viewed as "oil barons."

Active expansion into Western European markets is the main element of Gazprom's strategy. It intends to receive its main income from exports.

Gazprom's orientation on foreign markets is unavoidable. Since it is a natural monopoly, gas prices cannot be left to their own, and they will always be regulated by the state. Consequently the profit from the domestic market will generally speaking be lower than that from the foreign market by the amount the foreign consumer is richer than the Russian consumer.

This means that Gazprom imposes three basic requirements on the ideal model of the Russian state:

1. Elementary order. So that it would not have to defend gas pipelines with its own forces, organize navigation on Siberian rivers and so on. However large Gazprom might be, it is not strong enough to assume the functions of an East India Company. Moreover this is already almost the 21st century, and Russia is much larger than India.

2. Russia's good image in the West. So that the West would not have any political grounds for imposing an embargo or freezing assets, or refuse permission to conclude transactions, and so on. While abrupt reduction of consumption of Russian gas, or even its complete rejection, may be extremely economical, it is a fundamentally possible way for Western Europe to go. In a normal international climate, Norwegian, English and Near Eastern competitors will not be able to crowd Gazprom out, or significantly retard its expansion. But

the question would become totally different if Western European society comes to feel that Russia needs to be punished, and that some sacrifices could be made to this end. In this case Gazprom's competitors would be quite capable of lobbying for decisions that would allow European countries to turn down Russian gas within a rather short time.

3. Russia's good relations with Ukraine, Belarus and Moldova. So that transit pipeline transport would not be hindered, so that Russia could acquire ownership of a sizable part of the gas pipelines and other gas facilities on their territories, or establish some form of control over them. In this case it makes no fundamental difference whether these countries are independent states or a part of the Russian empire (the latter variant conflicts with the second requirement today).

Anything that is beyond these requirements (including the degree of state interference in the economy, the tightness of fiscal policy and the amount of freedom in the society) is not fundamentally important to Gazprom. However, there are three points that need to be covered. First, because Gazprom intends to play a strategic role in the world gas complex, it must not depend too greatly on imported equipment, and consequently reliance upon domestic machine building would be extremely desirable. (This is an important difference between the gas and oil sectors.) Therefore Gazprom is already investing resources into producing equipment and piping for gas industry. According to some data Gazprom allocated 300 billion rubles to the development and production of domestic gas equipment in 1994, including R220 billion for converted enterprises. The goal is to reduce the share of imported equipment by a factor of three by the year 2000. According to other reports Gazprom established its own shipping company, so that orders for specialized vessels would be placed only with Russian enterprises, and it is organizing its own production of piping modified for the northern climate. Gazprom is also attempting to actively involve itself in the affairs of domestic aviation industry. The range of its interests here is extremely wide—from ultralight helicopters to heavy ground-effect craft. Everyone now knows about its flirtations with "Rybinsk motors." The total of actual and proposed investments of Gazprom into industrial projects reaches a minimum of several hundred million dollars.

But a high level of gas machine building requires a rather respectable level of machine building in general (and of metallurgy as well). Gazprom is unable to heap the concerns of the entire sector upon itself. But it can support closer state regulation of the economy, an active industrial policy and protectionistic measures under the

manner of protecting the domestic producer. Even if this is disadvantageous to it directly as the largest taxpayer.

Second, Gazprom would find it desirable to have gas exported from Turkmenia, Kazakhstan and Uzbekistan travel at least partially through Russian gas pipelines. And it would be desirable for Gazprom to participate in development of their deposits, rather than being displaced from them. It presently has all of the technological and economic grounds for this. But another thing that is required is for Russia to have friendly relations with the Islamic world (which can sometimes conflict with the requirement of a good image in the West).

And finally, Gazprom's attitude toward foreign investors into Russian gas industry was, is, and will continue for a long time to be condescendingly good-natured. Though with the exception that foreign capital must not be allowed on a large scale into the principal regions—Tyumen Oblast and the north of European Russia (including the continental shelf): The battle over the Shtokmanovskoye deposit made this adequately clear. Access to the south of Russia (Astrakhan, Orenburg) and the Far Eastern shelf is unrestricted: The former is unimportant, and the latter will be out of reach in the foreseeable future. As far as concerns possible Eastern Siberian projects, if they are realized, it will be on the basis of parity: Gazprom lacks the money to develop them on its own, while any foreign investor would lack the rights and experience.

The political preferences and positions of the gas elite become so clear from this picture that there is no need to describe them in detail. But I would like to emphasize that the political credo of the gas elite is centrism, with an orientation on reform, and not on restoration. For it, preserving this high-tech industry is not an end unto itself, but a means of supporting the country's natural positions in the world market. It is therefore obvious that Gazprom's support to the "Our Home—Russia" movement is encouraged not so much by Viktor Chernomyrdin's persuasiveness as by shared interests.

2. Oil

In contrast to the gas sector, the petroleum sector is on the defensive rather than the offensive. In all of the basic directions. Oil production in Russia fell 44 percent in 1994 as compared to 1988 (the year of maximum production), and oil refining fell 32 percent. Production continues to decrease in 1995, and in all probability this will not be the last year of decline. Oil production is sufficiently profitable for the time being, but costs have already been growing faster than prices for a long time (the amount of rents paid in oil production has already fallen so much that the sector can no longer act as a donor in relation to the other sectors of the economy.)

USSR petroleum machine building has collapsed for practical purposes (at least because a significant part of it was concentrated in Azerbaijan). The larger part of the world oil market is unfavorable and extremely unstable.

But the following two things appear to be the most important. First: There are neither new, superlarge deposits nor oil-bearing regions in Russia that could become the strategic basis for developing the sector as a whole. Second: The situation differs fundamentally in different enterprises and different regions, and it requires fundamentally different solutions and different resources.

Thus there is no need for concentrating resources or for a centralized decision making system in the petroleum sector today. Only local successes and breakthroughs are possible, and they can be achieved basically by the efforts of individual collectives and leaders. Unavoidable losses from decentralization (associated for example with the inability of certain enterprises to operate in the foreign market) would be incomparable to the potential payoff from it.

This objective situation is what predetermined the direction of the painful institutional transformation this sector endured in the 1990s, and which gasmen luckily avoided. Many interpreted it as a loss of controllability, a breaking of ties and so on, and continue to do so. Some even feel that reform of management of oil extraction and refining was responsible for the present decline in production. In my opinion it's all the other way around. The reform was perhaps the only thing that could be done. Only it was able to give the sector a chance to develop.

Now the sector's administrative system corresponds completely to the objective situation within it. All of the principal enterprises—30 petroleum extracting associations, 28 refineries and petrochemical plants, several dozen pipeline transport enterprises, and approximately as many conducting wholesale trading in petroleum products inside the country—are open joint-stock companies. That is, they possess complete economic independence.

The controlling interests in all of these enterprises are in the hands of so-called vertically integrated petroleum companies (with the exception of pipeline transport enterprises, which are brought together into two holding companies—Transneft and Transnefteprodukt). Vertically integrated companies bring together petroleum extraction, refining, and trading in petroleum products. There are currently around a dozen of them, they all budded off from the Rosneft State Enterprise, and the

process of their final formation will apparently reach completion prior to the end of autumn.

All of the vertically integrated petroleum companies are holding companies in the precise sense of this term: They do not possess the rights of direct control of subsidiary enterprises and they do not actually exercise it. If any forms of activity are centralized on the scale of an entire holding company, it is only by mutual consent. (Of course LUKoyl, YuKOS and KomiTEK announced the start of a program to exchange shares in their subsidiary companies for their own. But it is unclear today whether they are pursuing a global goal—gradual transition from a holding company into a single firm, or seeking only a local objective—invigoration of the market for stocks of the parent and subsidiary companies.)

Russian oil companies are in different stages of their formation, and far from all of them are yet clear about their future. Only companies of the "first draft"—LUKoyl, YuKOS and Surgutneftegaz (established in 1992)—are more or less settled.

Only LUKoyl has really taken off. It centralized a large number of different types of activity of its subsidiary companies (financial in particular), and it established a network of service companies (in particular its Check Investment Fund). LUKoyl is actively expanding outside of Russia. And finally, mention should be made of the high authority enjoyed by LUKoyl President Vagit Alekperov. (One last example: Mr Alekperov became chairman of the board of directors of the Imperial Bank, replacing Gazprom general director Rem Vyakhirev at this post.)

In addition there are around two dozen joint ventures in the petroleum sector, which have already begun playing a noticeable role, at least in exports if not in oil extraction.

The petroleum industry leadership is perhaps the truest example of the standard definition of an elite as a group of personally independent and personally significant individuals united by shared interests. Most of these people support the permanent contacts they have maintained with each other for many years in issues regarding production and commerce. This is why the oil elite has been able to unite so easily in recent years to defend shared economic interests.

In addition the oil ministry is always ready to stand up in defense of the interests of the oilmen. Of all the sectors of the FEC, the petroleum sector is closest to the center of the interests of the Ministry of Fuel and Power Engineering, and it is under its direct control. One of the reasons for this is the minister's own career.

Yuriy Shafranik used to be the general director of the Lagasneftegaz Association, chairman of the Tyumen Oblast Council, administrative head of the Tyumen Oblast Council, and administrative head of Tyumen Oblast.

It is as their man in the government that Yuriy Shafranik is perceived by the oil elite. Not as a superior, not as an official imposed from above, but as the "chairman of the assembly of barons"—the first among equals, endowed with the trust and power to formulate and represent common interests. On one hand this allows him to act against someone's particular interests without consequence, while on the other hand it limits his freedom of maneuver and compels him to carefully follow common opinion.

It should be noted that the ministry plays a fundamentally different role in relation to the other sectors of the FEC. In the gas sector it is a purely nominal role, because Gazprom goes with its problems directly to the prime minister—its "natural" superior. The Ministry of Fuel and Power Industry plays a real but rather limited administrative role in relation to coal industry and electric power engineering. The ministry champions their interests in the government, to which the sectors themselves do not have direct access. This is chiefly in regard to prices, rates, subsidies and state capital investments, and in relation to coal, the problems of closing down mines and reducing the work force. But when it comes to their internal problems, Rosugol and the YeES Rossii RAO try to solve them independently. Both companies control the enterprises under them to a sufficient degree, and react painfully to external interference.

The situation and prospects of the petroleum sector are also dependent upon differences between what oilmen and gasmen see as the ideal model of the Russian state. From my point of view the oilmen's model includes the following items:

1. Elementary order in the same sense as discussed above.
2. Taxes and export and import duties that are not too high.
3. Lenient export-import and foreign exchange control. Many problems, particularly defaults, as well as maintaining regularity of deliveries of imported equipment and expendables, are being solved today by the oilmen owing to sufficiently free maneuver of foreign exchange obtained from exports. Tightening of state regulation of this sphere could lead to rather grave consequences. (The situation is fundamentally different for Gazprom: As a monopolist, it will always negotiate the necessary exclusive rights for itself.) On the other hand the

problem of export quotas and licenses or their surrogates (taking the form of, for example, rules of access to pipelines) is not all that important to the petroleum sector in my opinion. Although presence or absence of quotas is extremely advantageous to some enterprises of this sector and extremely disadvantageous to others, on balance they cancel each other out.

4. Absence of support to processing industry in the system of state priorities. In contrast to the gas sector, Russia's petroleum sector claims neither an active strategic role in the world FEC nor a profitability above the world average. And consequently "equipment independence" and cheapness of domestic goods (which is still far from obvious) are not fundamental problems to it. It is more peaceful and convenient to work with foreign suppliers. This is why Russian oilmen are now consciously oriented on imported petroleum equipment. They have no intention of spending large amounts to modernize petroleum machine building (particularly conversion of the military-industrial complex in support of the petroleum sector, although this is one of the most sensible strategies from a technological point of view). They would also prefer the state not to do so through taxes and protectionistic measures.

5. Normal interaction with CIS countries and Baltic states, which possess petroleum refining capacities, export pipelines, and petroleum transloading ports. (However, the level of friendliness desired by Gazprom is not mandatory for oilmen because they do not intend to acquire large amounts of property in these countries.)

6. The best possible relations with Russia's southern Islamic neighbors both in the near and far abroad (this naturally does not concern the Persian Gulf region, which has already been divided up). The fact is that only these countries can be viewed, and are viewed, by Russian oilmen as objects of expansion (for geological exploration, production and marketing). Some companies have already taken certain steps in this direction (LUKOyl has acquired a piece of the main oil projects of Azerbaijan and Kazakhstan; YuKOS has begun creating its own network of fueling stations in Turkey, and so on).

Oilmen do not support any attempts at pressure upon southern neighbors by Russia, particularly declaration of former Islamic republics of the USSR to be a zone of special Russian interests. They do not support them because they do not believe in their effectiveness. They need to have the possibility for expansion right now, before everything is divided up. Consequently oilmen favor a maximally respectful attitude toward the national ambitions of countries of the near abroad, while simultaneously hoping for maximum utilization of "old Soviet" technological, human and other ties. This is precisely

the essence of the disagreements between the Ministry of Internal Affairs and LUKOyl regarding agreements to develop deposits on the Caspian shelf, recently concluded between Azerbaijan and an international consortium (including LUKOyl). One other point of disagreement has to do with Iraq. Some Russian oilmen openly favor good relations with Iraq. They feel that the prospects for participation in its petroleum industry (after the embargo is lifted) are more important to Russia than any show of loyalty to the world community.

Thus as I see it, the oilmen need a state which would be completely liberal in the Western sense in economics but which would simultaneously pursue foreign policy without always having to check with the West.

We will conclude our examination of the petroleum and gas complex by defining the fundamental differences in the role played by the two sectors in the Russian economy today and in the medium range in the clearest possible way. Gas is a national sector. In the sense that first of all its prospects for development and its position in the world market depend significantly on the state of Russian industry in general; second, a significant and growing part of its profits can and will be channeled into other sectors.

Russian oil is more an element of the global economy. What is most important to its prospects is the state of the market of oil and petroleum equipment and of international financial markets. In addition, the possibilities the petroleum sector has for being a financial donor to other sectors of the Russian economy are swiftly decreasing.

3. Coal

As of the beginning of 1995 Russia's coal industry consisted of more than 250 mines and 65 open pits. The largest of them are independent open joint-stock companies. The smaller ones are united into territorial coal mining associations, which are also open joint-stock companies. The controlling interests in the overwhelming majority of these joint-stock companies are in the hands of Rosugol, which has the status of a state enterprise.

The influence Rosugol has on its subsidiary enterprises is extremely high. It is perhaps almost like that of Gazprom. The fact is that state subsidies and state investments are distributed through Rosugol. It also plays a key role in the process of shutting down mines.

The coal sector has had more trouble in the current crisis than all other sectors of the FEC. Its production fell 34 percent in 1995 as compared to 1988, the best year. Employment has been decreasing in the sector for

several years now: from about 700,000 in early 1993 to around 500,000 in early 1995. The process of shutting down mines was also started in 1993: Fifteen mines were closed in 1994, and eight were closed in the first 5 months of 1995.

But the decline is not what is most important—it has been less severe than in the petroleum sector. The main thing is that the coal sector is and will continue to be unprofitable. State subsidies to it are one of the most important economic expense items of the RF state budget. (Coal industry is or used to be unprofitable in many developed countries. However, in these countries the strain felt by state budgets is of another degree.)

Consequently Russian coal industry unavoidably anticipates a significant decrease in production and employment, and the shutting down of many more mines and quarries. In this case it is impossible to say for certain precisely which enterprises will be liquidated in precisely which regions. It is impossible to distinguish between promising and unpromising enterprises, such that the threat hangs over practically all of them.

It is impossible to say exactly how many mines need to be closed. In the most radical prescription written by the World Bank in summer 1994, 139 mines were to be closed and 338,000 jobs were to be eliminated at them in 1997 (a "gentler" variant called for 118 mines and 287,000 jobs). This proposal was rejected by Rosugol as extreme. Nonetheless, it feels that it would be necessary to close 43 mines just in 1995 alone. It is well known in this case that the outlays to shut down the mines are often significantly greater than the annual subsidies to maintain production.

It obviously follows from this that the ideal state for coal miners would be one that could find the budget resources either to subsidize coal production in the previous proportions or to close mines and reconstruct the coal regions. Obviously such a state would have to be more centralized than the former USSR. Everyone understands both within the sector and outside it that such a model would not be realistic under democracy. And coal miners do not want to march to work at gunpoint. (In addition we all still remember the role played by the miners' strikes in the demise of the USSR.)

Because the ideal model of a state in the mind of coal miners is unrealistic, there is no promising model of an economic and political future for the coal elite (which consists of the directors of coal mining associations and large mines, as well as the leaders of the coal industry trade unions and the Independent Miners' Trade Union). This unavoidably makes its political behavior extremely unpredictable and chaotic. And we should not forget

that this group is extremely active and sufficiently well unified in sticking to its demands. Over the last 3 years it has successfully lobbied in behalf of its interests and the interests of the sector before the government by organizing mass movements.

***Controversy Over Draft Law on Joint Stock Companies**

Introduction

954E1319A Moscow ROSSIYSKAYA GAZETA
(BIZNES V ROSSII SUPPLEMENT) in Russian
25 Aug 95 p 11

[FBIS Translated Text] No law has taken so long and had so many versions (seven in all) as the draft law on "Joint Stock Companies." It could be compared with the Land Code in the collision of interests. The last version got over the hurdle of the first reading in the State Duma right before the holidays. The unanimous vote of the deputies reveals their desire to pass the draft before the end of their terms. Its substance nonetheless leaves doubt that the text will prove exhaustive. The draft, accomplished at times not without an elegance displaying the hand of an experienced legislator, nevertheless has a clear contradiction in rights between large shareholders and the small holders of shares. The infringement on the rights of small shareholders, and essentially an absolute majority of the voters, against the background of the approaching elections cannot fail to tell in the subsequent clashes in the adoption of the draft legislation.

Law's Provisions Outlined

954E1319B Moscow ROSSIYSKAYA GAZETA
(BIZNES V ROSSII SUPPLEMENT) in Russian
25 Aug 95 pp 11, 13

[Interview with State Duma Committee on Privatization Chairman Sergey Burkov by Aleksandr Kapkov of the State Duma press service special for BIZNES V ROSSII: "A Plus for The Shareholders of the Whole Country"]

[FBIS Translated Text] *The Law "Joint Stock Companies" should be one of the principal pieces of legislation that defines the economic structure of Russian society under the conditions of a market economy. What tasks does the draft legislation accomplish, and how much does it take into account the complexities of the transitional stage of the economy? State Duma Committee on Privatization Chairman Sergey Burkov answers these and other questions.*

[Burkov] The acts of legislation prevailing today contain only the most general provisions on joint stock companies [AOs]. By staying within the framework of those,

we will inevitably end up in a situation where preconditions are created for various types of abuses—swindling operations in the creation of AOs and the placement of shares, speculation with the funds of shareholders, violations of their legal rights etc.

The directives regarding the impermissibility of the issue of shares of stock to cover the debts of AOs remain of a declarative nature as well. This creates preconditions in particular, for instance, that the funds obtained from the issue of shares of stock would cover the company's losses. The worst thing here is that some major financial structures have today built up their capital by abusing namely this circumstance, with grievous results for the shareholders in some cases. Joint stock companies had the opportunity of legally existing without possessing property to cover the obligations they had before the enactment of the new GK [Civil Code].

[Kapkov] What does the Civil Code contain that is new in relation of joint stock companies?

[Burkov] The very definition of joint stock companies has been clarified, first and foremost. The concepts of the open and closed company have been separated more clearly. The closed AO and the partnership (company) with limited liability are no longer considered to be synonyms (as was done in the Law "Enterprises and Entrepreneurial Activity"). It has been established that closed AOs may have no more than a certain number of shareholders (this limit should be defined in the law on joint stock companies).

A series of restrictions have been imposed on the possibility of having joint stock companies put additional shares into circulation. A company, for example, does not have the right to conduct an open subscription for shares until the full payment of authorized capital by the founders. A company may not increase it (including via the issue of additional shares) to cover losses it sustains. This in fact signifies that a company may not announce additional issues, which would create the appearance of prosperity, if there are losses.

Restrictions have also been imposed on the payment of dividends and the attraction of borrowed funds through the issue of bond obligations. An AO may not pay dividends today if:

- the authorized capital has not been fully paid; or
- the value of the company's net assets is less than the amount of the authorized capital and reserve allocation, or becomes less in the course of paying the dividends.

A company may not issue bonds sooner than the third year of its existence, and provided there is full payment

of the authorized capital. The amount of the bond issue cannot be more than the size of the authorized capital.

[Kapkov] Many practitioners are saying that the regulatory documents pertaining to AOs were developed to a greater extent for the open joint stock companies created during the process of privatization, and have less of an effect on the activity of private (without the participation of state capital) open AOs. There is also quite little attention to closed AOs. How can this error be rectified?

[Burkov] It is well known that three drafts of the federal law "Joint Stock Companies" were initially submitted to the State Duma—from the Russia's Choice faction, the Government of the Russian Federation, and the Voronezh Oblast Duma. All three draft bills, despite their differences, had an identical structure and a comprehensible apparatus. Only the Voronezh bill did not contain restrictions on the number of shareholders in a closed AO, while that number was limited to fifty in the other draft bills. But there was a flaw here as well—a two-tiered management structure (without the creation of a board of directors) was permitted regardless of the number of shareholders in the company. The clear desire to avert the "pilfering" of the enterprise by shareholders not associated by labor relations with the company and without a vested interest in the survival of the company turned this draft into an unfulfillable good intention. A two-tiered management structure for AO management, however, is permitted under the Civil Code only for companies that have no more than fifty shareholders. This requirements would seem to be justified and expedient. An AO with a large number of shareholders and without a board of directors, a board, could otherwise be turned into the private patrimony of the executive directorship. Then monitoring the activity of the leadership of the AO would be made seriously more difficult, which would lead once more to the diminishment of the rights of the shareholders.

[Kapkov] But here is a realistic situation. I leave an enterprise, and now they tell me that I am not now a shareholder. Is that correct?

[Burkov] It is not correct, the cessation of labor relations of a citizen with an enterprise (such requirements, by the way, were in the Voronezh version) cannot become grounds for the curtailment of the right of ownership of legally acquired property. This is also a diminishment of the rights of the shareholder. It must thus be noted that the draft submitted by the Government was better studied and corresponded better to the Civil Code that was passed in this regard. This also pertains to the right granted to the shareholders of closed companies to sell the shares belonging to them

to third parties on their own terms, if the company or other shareholders cannot or do not want to buy those shares. A norm was instituted there according to which the shareholder cannot be barred from a meeting under any conditions. The norm permits the demand to be made that the meeting be deemed invalid in the case of non-admittance. It may also be demanded that those guilty of doing so be relieved of their duties.

[Kapkov] But how can you fight the sometimes unwarranted issues of AOs, such as in the case of MMM?

[Burkov] The government version contains a provision that restricts the size of the public placement of shares. The size of an issue (for public placement) is made dependent on the size of the company's authorized capital. The amount of such an issue may not be more than five times greater than the size of the authorized capital. This will protect the rights of the shareholders to a certain extent, and will impede the creation of "puffed-up" joint stock companies where, for example, a company with equity of a million rubles announces an issue of stock of several billions.

[Kapkov] But as is well known, none of the drafts that you enumerated has gained the necessity majority of votes in the State Duma.

[Burkov] The State Duma, in its session on 23 June 1995, passed on its first reading the draft federal Law "Joint Stock Companies" that was submitted by the deputies on the Committee on Ownership, Privatization and Business Activity. This came about because the coordination of the government version of the draft law in the deputies' associations effectively got into a dead end, owing to the lack of coincidence of the positions of the representatives of the Government and the leaders of the principal factions on a series of key provisions of the draft legislation. A situation was created where the adoption of the "Joint Stock Companies" law was postponed for an indefinite period. It must be noted that the Government had an understanding attitude toward this initiative by the deputies.

[Kapkov] What will the draft contain that is new, particularly compared to the draft of the Government of the Russian Federation?

[Burkov] It must be noted at once that the drafts that were considered and rejected contained quite a large quantity of clear-cut and judicially developed concepts and provisions that correspond to the requirements of the contemporary economic development of Russia that it would make no sense to neglect. The draft that was submitted includes many of the provisions that are contained in the drafts that were considered. But there are provisions at the same time relative to which the new

draft proposes a different way of solving. It includes, for this purpose, provisions:

- on the election of members of the board of directors of the company by cumulative voting, which allows a minority of the shareholders to elect a proportional minority of the board of directors;

- on the right of shareholders to hold special meetings;

- on the establishment of a maximum time period for the powers of the members of the board of directors (annual elections of the board of directors are stipulated);

- on the recall of members of the board of directors before the expiration of their authority, if their activity is ineffective or in the event they abuse their authority (this norm was exceedingly difficult to realize in the prior draft legislation);

- on the shareholder monitoring of deals made by the company, where the interests of the members of the board of directors of the company are involved.

A series of other fundamental mechanisms have also been codified that were lacking in the other drafts, and they are directed at protecting the rights of shareholders and investors. These provisions make it possible for shareholders to monitor deals made by the company whose object is the sale or transfer of the principal portion of the assets and real property of the joint stock company (a special section is added). The concept of the preferential right of shareholders to acquire the shares of the AO in the event of additional issues is also accommodated here, and is a guarantee against the "dilution of capital." A provision has been added on the possibility of changes and amendments to the by-laws of the company only by decision of a general meeting of shareholders that is passed by a qualified majority of votes etc.

The new draft also provides for a balance of interests of shareholders, the members of the board of directors and the managers of the joint stock company. The authority of the general meeting of shareholders has been expanded. The authority of the board of directors of a joint stock company is limited only by the issues that are directly listed in the draft, and a tight mechanism has also been introduced on the liability of members of the board of directors to the shareholders. The liability of managers (executive bodies) is also very tight and logical.

Finally, the issue of closed joint stock companies was also reviewed. Fundamental is the fact that the restriction on the size of closed AOs does not extend to joint stock companies in the agro-industrial complex that were created:

—under the procedure for the reorganization of kolkhozes and sovkhozes under Edict No. 323 of the President of the Russian Federation of 27 December 1991, "Urgent Measures to Implement Land Reform in the RSFSR":

—based on peasant (individual private) farms;

—based on service and support enterprises for agricultural producers, namely enterprises for material and technical supply, repair and technical enterprises, enterprises in agricultural chemicals, timber farms, interfarm construction organizations, enterprises in rural energy, seed cultivation stations, flax plants and enterprises for the processing of vegetables.

Law's Shortcomings Pointed Out

954E1319C Moscow ROSSIYSKAYA GAZETA
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[Article by Aleksandr Velichenkov: "A Minus for the Rights of Small Owners"]

[FBIS Translated Text] *It looks like the Law on AOs [joint stock companies], after prolonged discussion, has essentially turned into the Law on AO Boards. That corresponds in general to the realities that have taken shape today, since the "red generals" and the "new Russians" are trying in every way possible to avoid any control on the part of public owners.*

But we will begin by asking the questions in order. Why (Article 1 Paragraph 8) is banking, insurance, exchange and investment activity excluded from the effective sphere of the law? Virtually all of the primary concepts and procedures of the law on AOs are entirely applicable to these fields. And even if you agree with the necessity of separate laws on banking and insurance companies, why does the law on AOs not extend to them, since they are organized as AOs? The exclusion of investment activity from the law is simply incomprehensible, since any investment of funds in joint-stock capital is nothing but an investment.

Why turn any AO into a clear offshore company—true, without tax concessions with indefinite ownership—with the aid of a simple combination (Article 9 Paragraph 5, Article 11 Paragraphs 1 and 4)?

This feat is accomplished in the law as follows. An agreement on the creation of an AO is not a founding document, which means that it is not seen by anyone but the founders. Only the charter of the AO is the founding document, and it does not have to contain (Article 11, Paragraph 4) information on the composition of the founders. Just make a couple of references in the text of the charter to "nowhere" under the name of the

"founding agreement," and the actual owners become much more secret than in Cypriot or Luxembourg offshores. There at least the firm registering the offshore knows its actual owners.

Why does the text of the law artificially create such a legal labyrinth as, say, Article 38? "A company carries out the placement of shares at market value..." The definition of the concept of "market value" in Article 88 is such that its use in practice is impossible, since it is constructed in terms of "if, and or but."

What is the "security convertible into shares of stock" (Article 38), and how does it differ from an option? And where is the lower limit of the price of an option in relation to the "market price" in the placement of shares (Article 38)? And can options be given out without charge to "one's own people" using Article 41?

We will return to the issue already touched on of the payment of dividends by securities, as well as other elements. Such a practice exists, but it is connected by and large with the activity of voucher investment funds. And they have been taken out of the effective sphere of the law. Such complexities, right up to the payment for shares of stock in AOs with their placement by shares of stock of other elements, are clearly superfluous for conventional AOs, which the law also regulates. The practice that has already taken shape of paying dividends even using one's own (not to mention others') shares is eliciting quite serious reproaches on the part of shareholders.

One of the most important issues in the joint-stock legislation is the concept of bearer shares. The version under consideration (Article 29) resolves this issue unequivocally—"all shares of stock are registered." But it does not follow at all from this that the actual owners of the shares (even not the founders of the AO) will be known to the public. The law introduces the concept of the "nominal holder of shares" (Article 52), who in accordance with Paragraph 4 of that article is in no way obligated to reveal the actual owners. This obligation is formally entrusted to the nominal holder in the "Temporary Statute on Registering the Owners of Registered Securities" that has been enacted (see Agency Supplement of August 18, Paragraph 3.4.2 of the statute). But a law is stronger than a statute, and no sanctions are stipulated "in accordance with prevailing legislation" for refusal. The loophole has been left in the law—one nominal holder may be "covered" by another (Article 52), so you still do not get to the actual owner of the shares. And if you study the "Temporary Statute on Registering..." carefully, then it is easy to note that it contains an unclear precondition on the electronic method of the issue of shares of stock and electronic

registration. This signifies in practice that featureless excerpts from the register, completed for a nominal holder, will be transacted in the funds market, while no actual changes will be made in the register, and the new owners just reconclude the agreement (Article 52, Paragraph 2; it is, incidentally, not very comprehensible what it is and what requirements are made toward it) with the nominal holder.

The ill-starred Article 52 Paragraph 3 contains another internal problem that turns into a vicious circle analogous to the "which came first—the chicken or the egg?" problem. Is the owner or the nominal holder in the register? This collision will be resolved very simply in practice. The broker obtains shares for the owner's money, and based on his instructions completes the transfer order in the name of the nominal holder. And one of the main problems that is engendered by this version of the draft law arises right here. Strictly speaking, after all, the reverse option is possible as well—the actual owner "puts on the face" of the nominal owner while far from being one, "just in case."

The owner and the nominal holder are "distinguishable" only in the register (Article 46, Paragraph 1). This information is offered only to "individuals recorded in the register and recorded mortgagees." The owner and the nominal holders are indistinguishable both according to excerpts from the register and according to rights as shareholders in the AO, since the appropriate norms are lacking in the law. There is, on the other hand, a norm that "no charges may be levied" under the obligations of nominal holder on shares that are held by a nominal holder in the interests of other individuals. Seemingly entirely reasonable, since this property is not his. That is so, but what do you do in a case where an actual owner makes use of the "face" of the nominal holder, secures some debts that he does not intend to pay, and at the necessary moment, when he is levied under the demands of creditors, quickly turns "his own into another's" with the aid of the fictitious "actual owner" and an agreement reached "later" (Article 62, Paragraph 1)? Our legislation has not yet seen such room for financial trickery.

It has also not seen a draft law in which the rights of shareholders are cut back to such an extent that the board of directors is the virtually fully empowered and uncontrolled owner of the entire AO in accordance with the law.

The diminishment of the rights of shareholders is widely spread throughout the text of the law: Article 59, Paragraphs 1 and 2 (if an ordinary shareholder wants to place an issue of concern to him on the agenda), Article 59, Paragraph 8 (so that the general meeting does not

take under consideration issues that are not "included on the agenda"), Article 66, Paragraph 2; Article 62, Paragraph 1; Article 72, Paragraph 1; and others. The pinnacle of these "legislative" provisions is Article 54, Paragraph 4, which requires the approval of the general meeting... by the board of directors. It turns out that if the shareholders resolve to discuss the activity of an embezzling board, they will simply be unable to do so.

The draft legislation very purposefully maintains the following financial combination for the plundering of the shareholders:

—a small AO, the offshore, is founded;

—it names "its own" board;

—an enormous stock issue is announced (the law does not stipulate any tie between the authorized capital and the issue);

—the entire issue need not necessarily be placed, the law introduces the concept of "announced and placed shares" for this purpose;

—everything that is able to be brought in under the issue comes to be under the uncontrolled disposal of the board.

We already have an example in life of such an AO—the widely known ABBA. Referring to a project of three billion dollars and placing shares for 200 billion rubles, this AO moved away from its initial objectives and took up somewhat different activity.

*Report on Securities Market Status

954E1358A Moscow *FINANSY* in Russian Aug 95
No 8, pp 7-11

[Article by B. I. Zlatkis, head of the Department of Securities and the Financial Market, RF Minfin: "Russian State Securities Market"]

[FBIS Translated Text] The situation which we are all experiencing today is associated primarily with a certain stabilization in the economy of the Russian Federation. Yet it is a stabilization in the sphere of finance, because to speak of a stabilization in the sphere of production and in the sphere of investments (if we discount the purely financial aspects) would still be premature at the present time. Unfortunately, this process is coming out of its standstill very slowly.

Nevertheless, today's situation on the financial market, in the sphere of credit-finance relations, in our view, is characterized by the word stability. But, of course, with certain peculiarities for our country, peculiarities of the transitional period in which we find ourselves today. This is associated primarily with the fact that the

securities market was practically absent in the Russian Federation before. And not only that. The very concept of "state debt" was also absent. It appeared at the same time as the legalization of that debt which actually existed.

A present-day peculiarity in this sphere is the fact that, within a historically short time, the Government of the Russian Federation, the Ministry [of Finance] of the Russian Federation, and the Central Bank of Russia created a well-developed structure of the state domestic debt, which is based on the most leading technological ideas and provided with the most up-to-date equipment and technology existing in the world today, intended for securities operations.

The questions arise: What are the peculiarities of the Russian securities market? What securities are in circulation on this market? What do the RF Ministry of Finance and the Central Bank of Russia intend to do to develop the securities market further? In order to answer these questions, we must understand how this market appears today.

And today, unfortunately, the entire financial market has a somewhat disproportionate structure. It is distorted in the direction of state securities, which do not have much competition from corporate securities. And this, for the RF Ministry of Finance as the emittant, is exceptionally incorrect, unfair and dangerous. Any market which is not supported from the bottom by competition is always weaker than market structures which develop normally, in a competitive environment. Yet the Russian securities market is weak also because the prices formulated on it are not always sufficiently fair due to the fact that there are no other segments of the market on which analogous prices may be formulated.

There is one very serious task for the RF Government, the Commission on Securities and, naturally, for the Ministry of Finance in the sphere of the securities market today, and no one is relieving them of this task. This is the development of a market in corporate securities and the development of a market in secondary emissions of securities in privatized enterprises, so that they would not simply exist on the market, but so that the infrastructure of their circulation would be just as transparent as that which exists on the state debt market. There is considerable reason to believe that this task will be successfully fulfilled. Yet for now, let us return to the state securities market. This is the segment of the market toward which professionals exhibit great interest.

State securities are today represented by three basic types, and all three of these types of securities operate in a rather complex regimen (this is always the case with high technologies), which undoubtedly is more suitable

to wholesale buyers, i.e., professionals, than to retail buyers, i.e., individuals.

The market in short-term state bonds (GKO) is well-known today. In May it began its third year. Its volumes are growing at a rather rapid rate. While for all of 1994 the state earned income in the sum of 6 trillion rubles (R) on the GKO market and channeled this income toward coverage of the budget deficit, in the current year's budget this sum has been increased to R20 trillion. This is a rather intensive task for the Ministry of Finance and its agent—the Central Bank of Russia, but it seems that they are managing to deal with this task. In any case, in the first 6 months of 1995 alone, the budget income received was on the order of R12 trillion, i.e., more than half. Therefore, there is every reason to believe that the indicators for this source will be achieved.

Yet what characterizes the GKO market in recent times? What is happening with the interest rates? What should professional participants in the market expect? How should we approach an analysis of this market?

First of all, the GKO market has organically merged into the general financial market. And in order to analyze the GKO market, we must analyze an entire series of financial indicators, because, as with any other technological financial market which quickly spreads its influence around itself and alters the market conditions, the GKO market reacts most acutely to fluctuations in the currency exchange rate. Naturally, it reacts to rates on the interbank market, although more probably, it is just the opposite—the rates of the interbank market gravitate toward the GKO market. Unfortunately, this market in our country, as well as in the entire world, reacts most sensitively to changes in the political situation. Any political movement, of a positive nature as well as a negative, always affects the prices on the GKO market, whose yields sharply increased during the time of crisis in Chechnya and less sharply, although also quite adequately, during the time of the parliamentary-governmental crisis. Today, when this crisis is behind us, the rates have dropped off sharply.

In order to act as an analyst on this market, it is necessary to have a good understanding of what is really going on in all sectors of the securities market: Where and how can one most profitably invest money; How reliable is the government, and how reliable is the state which sooner or later will have to either pay off or finance this market?

As with any securities, state securities have three basic criteria, according to which they lend themselves to analysis. The first of these is reliability. The reliability of GKO as compared with all other instruments of the

financial market, including also state instruments, is rather high. This is because, by agreement with Minfin [Ministry of Finance], the Central Bank of Russia acts as the agent which, if it turns out that Minfin for some reason is unable to pay, will automatically pay off the refinanced issues. This speaks of the fact that, if Minfin should encounter difficulties, complex relations would emerge between the Ministry and the Central Bank, yet the investor in this loan would not suffer in any way. Thus, the reliability of the GKO is exceptionally high, and it is this reliability which explains the rather fervent interest in these securities which is currently being manifested in the West.

As for liquidity, i.e., the possibility of quick purchase and quick sale, for the present time, in over 2 years there have been practically no problems with GKO's. Perhaps there was some problem with liquidity in January of this year, when there was a very complex situation in the country. The second case was at the end of June, when the market had rather low liquidity, and consequently more securities were sold than bought. But for such cases our market has a market-maker, whose role is fulfilled by the Central Bank of Russia. Unfortunately, for now it is the only one. Usually, in the West, this role is fulfilled by several other banks. Nevertheless, the Central Bank is fully capable of maintaining liquidity at that moment when supply for sale is greater than demand—to maintain it by buying the securities at such a moment, and selling them later.

And when securities have high reliability and high liquidity, the yield is generally lower than for those market instruments which do not possess the two former remarkable qualities. We know that the greater the risk, the higher the income paid by the emittant. Russians have become all too well acquainted with this truth in the course of the last summer—a summer of collapse of financial companies.

Although the yield of the GKO's is not the highest, even when there were doubts about their reliability, the yield of these securities was nevertheless almost the same as for the "Mavrodiks"—over 300 percent, which was associated with the crisis in Chechnya. In recent times, the yield on the GKO market has been rather stable. For all of June, it held steady at almost two times lower than the re-financing rate of the Central Bank. To our consolation, although this is not very fair in regard to investors, the yield in June was even lower than the level of inflation, i.e., it did not give a positive rate. Today, in connection with the problems of the government, the instability in the Central Bank of Russia (everyone knows about the telegram on cash money circulation), etc., the yield of the GKO's has taken a sharp upturn, and has reached up to 7.0 percent per month, and by the

beginning of June dropped to 6.5 percent in connection with the fact that at the present time there is more money for investment in the GKO's on the market than there are securities available for sale. Thus, this will continue in the future if inflation goes down (for which we are hoping, toward which we are working), and investments into GKO's will be rather profitable. And since the money is invested for 3 or 6 months or for one year, the lower the rate of inflation, the more the investor will earn. It has already been stated that the GKO market is a wholesale, professional market, because these "papers" in fact operate in a "paperless" regimen, in the form of entries in depository accounts in the Moscow Interbank Currency Exchange (MICE), and this is rather complex for the public.

Although in a normally regulated economy the public, of course, has the right to buy state securities, the overwhelming majority of the population does not purchase state securities, but rather keeps its funds in accounts at savings banks. And the banks—these are the professionals on the securities market—operate with the securities and earn money both for themselves and for their investors. Such is world practice. Unfortunately, our banks have not found themselves at the height of the situation and were not ready to work with the public on fair principles (as is customary in world practice). Even the Sberbank [Savings Bank] of Russia works with the public in not the most fair manner. And this, naturally, evokes interest among individuals toward state securities, by-passing the not very honest middleman. At the same time, there is, alas, no satisfactory legislation on savings banks in Russia.

However, we must also say that, for all of June, the monthly rate for GKO's was slightly lower than that paid by the Sberbank to the public. Minfin sold securities at 3.8-4.0 percent, while Sberbank paid 5 percent on investments.

The fact is that Sberbank in itself, as a professional on the securities market, has the opportunity of earning much more than the Minfin yield provides.

But in order to earn more, it must have high professionalism and engage in this matter continuously, and have many people to perform such work. In principle, the Sberbank of Russia could act as a dealer for the public, earning more on state securities than the state pays. But, unfortunately, this is as yet not the case. There is evidently neither the interest, nor the obligation (under legislation), nor the capacity (a branched system, technology, etc. is needed) for this. And since, as we already said, the banks are not ready, the Minfin of the Russian Federation will be forced to issue securities adapted only to the public.

In principle, our public can also buy GKO's. For this, one need only come to a bank which is a dealer on the GKO market and perform the purchase or sale transaction through it. However, this will be economically justified only for professionals, who will have nothing else to do, since this work requires full input in order to get a positive, and moreover a tangible result.

We might add that the Central Bank of Russia has developed instructions on investment accounts in commercial banks, which will be permitted to collect money from the public in special accounts for inclusion in the GKO market. The operator of these funds will be the appropriate commercial bank, which will earn money on operations with GKO packets for itself and for the public.

Of course, in this case too, neither the advantages of GKO's, nor the thorough development of instructions by the Central Bank, nor the specially blocked accounts can yet be considered as a 100-percent guarantee of the reliability of investments by individuals or of the yield promised by the bank. The interests of the bank, the real capacities for actually implementing the measures for ensuring fulfillment of obligations specified by law, the capacity of the individual to act in the role of investor, etc. will all have an influence on this. In purchasing securities, it is at least necessary to thoroughly read the prospectus document and to assess the relations stemming from it between the investor and the bank, and individuals do not always do this.

The second type of state securities which are already functioning today are much less known than the GKO's. These are the OFZs—federal loan bonds. The OFZs are a sign of the times. They are evidence of financial stabilization, because the OFZs are the first medium-term securities which have appeared in the Russian Federation. They are issued for a term of 1 year and 2 weeks, which is explained by the peculiarities of our legislation (a term of over a year is required for securities to be considered medium-term), as well as by the convenience of computing yield (plus 2 weeks). The yield on these securities is payable quarterly. Moreover, the yield is tied to the yield on the GKO market: The last four issues of GKO's are taken, the average weighted yield is computed, and based on this value the OFZs are sold (also in a "paperless" regimen, i.e., in the form of entries in accounts) at auction at the Moscow Interbank Currency Exchange. Like the prices on GKO's, the prices on these securities are also set by the investors themselves. And the role of Minfin is reduced to determining whether this price suits the ministry or not. This is called the cut-off price: The Ministry of Finance cuts off those offers which are unprofitable to it, and accepts those which are profitable.

In itself, the emergence of the OFZ, both for Minfin and for the entire financial system, has exceptionally important significance, since it brings a certain stabilization of the situation on the state debt market. It is not necessary to think about re-financing loans every 3 months. That is, we are moving farther and farther away from the idea of the pyramid, and are getting ever closer to the idea of long-term borrowing, which is preferable on any financial market, although world practice tells us that usually 30 percent comprise short-term loans (such as our GKO's), while the remaining 70 percent are divided up between medium-term and long-term investments.

The experiment with the OFZ has on the whole proven to be successful. R1 trillion in bonds were emitted, and all of them were sold in 3 days. Moreover, the yield continually declined (on the first day—with rather high yield, on the second—lower, and on the third—with exceptionally low yield).

We believe that these securities have certain success with dealers, especially since every 3 months the investor also gets his income, which is associated with the functioning of these securities on the market. Moreover, OFZs make it possible to hedge risks on shorter term investments. There is hope that the OFZs will give the state budget an income of R7-R8 trillion for financing the state budget, in addition to those R20 trillion which the GKO's should give. And altogether it is necessary to earn R32 trillion in order to cover the budget deficit envisioned in the law on the budget for 1995.

The third type of state securities, which are almost ready for issue, are the public savings securities (SBN). On the surface, these securities (and they will have a material form) are quite similar to the well-known 3 percent loan bonds, but with coupons for receiving income every 3 months (the securities are issued for a year). Moreover, the yield on the coupons will be tied to the OFZs (and the yield on the OFZs—to the GKO's). However, since it will be for the public, an additional 1 percent will be added to the rate of yield on the OFZs. Such securities will be offered already in September.

Here we must say that it did not make sense to issue these securities previously, since the yield on GKO's and OFZs was sharply dropping. There was much money on the market, and significantly fewer offerings on the part of Minfin. Under such conditions, the public would have little to gain from investments. And if dollar securities had been issued, due to the decline in the exchange rate there would have been a net loss for the investor.

In preparing the SBNs, the Ministry of Finance was guided by the fact that the public securities should show a profit, although not the greatest, but still close to the

real interest rate on bank investments plus some other percentage. At least, the yield should fully compensate the losses from inflation.

Minfin took a very responsible approach to preparing the public securities, taking into consideration the public's lack of protection, unprofessionalism and credulity.

Of course, even in the presence of special state securities for the public, most citizens will buy them only if this will be more convenient and profitable than investing the money in the bank.

The task of Minfin, in our opinion, consists of making the public savings securities more attractive. We believe that Minfin is successfully handling the resolution of this problem. And in September the public securities will go on sale.

There is an entire array of securities, and there is an entire array of ideas on the state loan market, which make it possible not only to collect funds, but also to perform complex deals with state securities, complex operations both for the market professionals and for individuals. Specifically, these are the securities nominalized in gold. Such securities ("gold certificates") have already been issued, and were paid off a year ago. There is an intention to once again issue such securities sometime by the Fall, since gold securities have a number of advantages.

The budget for 1996, as we know, secures the current positions on non-inflationary financing of the state budget deficit. And this means that state securities will be issued, but for a larger sum than in the current year. This is very difficult to do. For solving this problem, high technologies will of course be required, which allow quick turnover of the securities, quick performance of deals, and increased liquidity of the securities. New types of state securities and new types of investors are also needed.

Western investors are eager to enter the GKO market. The presentation of GKO's, performed recently in London and New York, drew more than 100 leading investors from all over the world—the most prestigious firms trading in securities. And although they are generally very conservative, in this case they are very eager to enter our state debt market, which is already rather large (on the order of \$10 billion) and has high technology. We may already say that we are approaching a state debt market of world significance. Foreign investors are gradually gaining access to this market. Yet at the same time, the state is exhibiting prudent conservatism and protectionism in favor of domestic financial institutions (just as this is done on the commodity markets).

Nevertheless, there will also be foreign investors on this market as well. This will make it possible to attract large volumes of funds. And the more money comes in, the lower the price, which is very important for the taxpayers, since the expenditures for servicing the state domestic debt are covered only through their taxes.

Yet, by investing money into the financial market and becoming convinced that this is profitable, stable and reliable, foreign investors will gain ever greater confidence and will begin to invest money directly into production.

Having earned money in Russia, they will invest it in Russia time and time again. And the confidence necessary for this will be gained in our state securities market. In the two-and-a-half years of operation of this market, the state has not allowed itself to delay payments on the securities by even 15 minutes. And this is very important, since it is necessary to overcome those tendencies which were formed in the USSR as early as the 20's, when all payments on the domestic state debt were suddenly stopped. Specifically, the unfulfilled USSR obligations on the commodity loan and other financial obligations fell onto the shoulders of Russia. And Russia is paying for them today. A law on commodity loans was recently adopted, according to which all debts on the commodity loan will be returned to the population (in money at market value). And so forth.

The Russian state securities market is developing, but each new step in this direction is made only after the state is completely ready for it. Because the main thing here is the reputation of the state as a reliable borrower.

***Paramonova Assesses Ruble Peg Results as Positive**

954E1353A Moscow DELOVOY MIR in Russian
26 Aug 95 p 1

[Article by DELOVOY MIR correspondent Natalya Ilina: "The 'Currency Corridor' Is Becoming Longer, But, for Certain Banks, the Light at its End Does Not Glimmer: Will the Churning in the Financial Sea Settle Down?"]

[FBIS Translated Text] The conference which took place on 24 August in the RF [Russian Federation] President's office, in which Prime Minister Viktor Chernomyrdin, Acting Central Bank Chairman Tatyana Paramonova, First Deputy Prime Minister Anatoly Chubays and Minister of Finance Vladimir Panskov participated, concluded with the adoption of a decision on extending the "currency corridor" until the end of the year. Its bounds remain the same as

before: 4,300-4,900 rubles [R] to the dollar. The government and the Central Bank said in a joint statement: "The RF Government and the Bank of Russia will ensure the possibility of unhindered buying and selling of foreign currency in the domestic currency market and will support the ruble's exchange rate within the indicated limits using measures of the budget, monetary-and-credit and currency policies."

In T. Paramonova's words, the introduction of the "currency corridor" has had a favorable impact on the economic situation in the country. The psychological inflation expectations decreased, which also influenced the reduction in the rate of inflation. This trend is continuing during this month and the prerequisites exist for it to extend to the end of the year. The stockpiling of currency reserves, carried out by the Central Bank and the Minfin [Ministry of Finance] since January, has led to a rise in the country's payment stability indicators and the rating associated with this of Russia in the international financial markets. The country's gold and currency reserves amounted on 1 July to \$12.4 billion as against \$6.5 billion at the beginning of the year, including the increase in currency reserves from \$4.0 billion to \$10.1 billion.

In talking about the "corridor's" adverse impact on currency exporters, T. Paramonova noted that, first, this measure merely prevented a further drop in the dollar's exchange rate and, thus, it saved the exporters from even more significant losses and, second, the efficiency of export commodities also depends on another component — production costs. One of the ways of solving the problem is to lower the export duties. It is possible that a number of edicts, intended to soften the effect of the "currency" corridor and ready for the president's signature — they were mentioned by his assistant on economic matters, Aleksandr Livshits — will be able to protect the exporters.

Despite the fact that, according to A. Livshits, "the government and the TsB [Central Bank] recognize the entire extent of their responsibility for what is happening in Russia at the end of the year and are convinced that they will be able to prevent destabilization of the situation in the currency and credit markets in the fall," — the decision on extending the corridor coincided with the crisis in the interbank credit market. It was marked by the almost complete cessation of transactions in it and the raising of credit interest rates even for overnight credit to 1,000 percent. Part of the mass media, with reference to the market's exporters, reported that this may lead to the collapse of the entire banking system and a subsequent profound investment crisis.

Nevertheless, T. Paramonova commented quite calmly on the situation which had arisen. Having reported that, in her opinion, there will be no system crisis, she depicted the market's current situation as follows: a period of profitable speculation — of financial middlemen transactions — is occurring. In the opinion of the Central Bank's management, those banks which have recently bought up a large amount of currency in the MMVB [Moscow Interbank Currency Exchange], counting on a repetition of last year's plan, are placing themselves in a complicated position. The low ruble liquidity cannot make such a gamble promising. "Back at the beginning of summer, we called on the commercial banks to follow the situation in the country. The banks have come to a period when they should choose where to go — to the currency market, the GKO [State Short-Term Bond] Market or the practical sector of production. Unfortunately, most of the banks did not choose the third path."

The apocalyptic predictions with respect to the collapse of the investment market also seem greatly exaggerated. In the meanwhile, the commercial banks have directed not more than a small percentage of their funds toward capital investments in production. It is interesting that, on the morning of that very day, at the press conference organized by the RF Government's Working Center for Economic Reforms, the European Council's expert, Daniel Cohen, reported that the stabilization process will be accompanied by bank failures. His assertion is based on a study made of 100 Russian enterprises. The fact is that the enterprises prefer not to pay taxes and wages, but do not obtain credits from the banks until the last moment. They turn to a bank when they are already insolvent and have nothing to lose. Hence, the low quality of the banks' portfolios.

Nevertheless, as the acting chairman of the Central Bank reported, those banks which heeded the recommendations to establish reserves to cover "questionable loan debts" are in a rather good position. Also efficient is the path of bank mergers and reorganization, which leads to a reduction in specific expenditures for conducting transactions.

T. Paramonova announced her intention to maintain the market's liquidity within the limits of the special-purpose credit policy. Thus, on 24 August, the Central Bank managed to ease somewhat the situation which was arising by buying state securities worth R600 billion. Also reported was the possibility of easing the reserve requirements — they will be reviewed as the level of inflation falls.

In any event, the very fact of the difficult position of many commercial banks cannot cause surprise — the

explosive growth of their number, given the situation favorable to this, should inevitably be solved by a subsequent decline in this indicator to a reasonable level. It is true that, at the same time, as always, the investors suffer.

[Boxed material from ITAR-TASS follows]

Viktor Chernomyrdin Is Conferring with the Bankers

The chairman of the Russian Federation Government, Viktor Chernomyrdin, held a conference yesterday with the heads of the country's largest banks, including the Central Bank of Russia. Representatives from the RF Ministry of Finance also participated in the conference. ITAR-TASS was informed of this by well-informed government sources.

Afterwards, First Deputy Prime Minister Anatoliy Chubays held a press conference. He reported on the measures being undertaken.

By Thursday, the Central Bank had acquired on the open market securities worth R600 billion, as a result of which, on that same day, it managed to reduce the interest rate for overnight credit from 1,000 percent to 150-200 percent.

Anatoliy Chubays reported that the Central Bank will continue to buy securities on the open market and will provide the necessary short-term extension of credit to commercial banks in order to put a decisive end to bank nonpayments.

The first deputy head of the government believes that the situation in the State Short-Term Bond Market is stable and no changes whatsoever in the profitability of this sector of the financial market are anticipated.

The government reached an agreement with the Association of Commercial Banks on the drawing up of a set of medium-term measures, for which an interdepartmental working commission is being set up with the assistance of representatives of the government, the Central Bank and the commercial banks. [End of boxed material]

***Order, Statute on Customs Formalities for Oil Exports**

954E1328A Moscow DELOVOY MIR in Russian
14-27 Aug 95 p 17

[Text of Order and Statute on the Formal Customs Procedures for the Export of Petroleum by Pipeline for Refining Outside the Customs Territory of the Russian Federation]

[FBIS Translated Text] Statute on the Formal Customs Procedures for the Export of Petroleum by

Pipeline for Refining Outside the Customs Territory of the Russian Federation

I. General Provisions

1.1. The present Statute was developed in execution of Decree No 1446 of the Government of the Russian Federation, dated 31 December 1994 and entitled "The Export of Petroleum and Petroleum Production Outside the Customs Territory of the Russian Federation as of 1 January 1995" (hereinafter, the Government decree).

1.2. The Statute applies to petroleum being moved across the customs border of the Russian Federation by pipeline.

1.3. The export of petroleum outside the customs territory of the Russian Federation is done by petroleum extracting enterprises in the established manner and also by joint-stock petroleum companies formed (being formed) in execution of decrees of the Government of the Russian Federation in conformity with Edict No 327 of the RF president, dated 4 January 1995.

Enterprises with foreign investors export petroleum outside the customs territory of the Russian Federation in conformity with the laws of the Russian Federation.

2. Special Features of the Issuance of a License To Put Petroleum Under the Customs Treatment for Refining Outside the Customs Territory

2.1. Petroleum is put under the customs treatment for refining outside the customs territory in conformity with the Customs Code of the Russian Federation and the normative documents of the Russian GTK [State Customs Committee] which regulate refining outside the customs territory, with due regard for the special features established by the present Statute.

2.2. To obtain a license for refining petroleum outside the customs territory an enterprise must submit a written application in the established form (Appendix 1) to the customs office in whose zone of activity it is registered. Concurrently with the application the enterprise submits the authorization of the RF Ministry of Fuel and Energy to export petroleum for refining with an export finding by the Department of Petroleum Refining on norms for production of refining products (indicating volumes and the refiner-country) issued on the basis of a balance coordinated with the RF Ministry of Economics.

2.3. Persons who have submitted an application may be refused issuance of a license to export petroleum for refining in cases where:

—the documents indicated in this section are not submitted in full;

—the documents are made out incorrectly or incompletely;

—during the year preceding the date of submission of the application the applicant has been charged with violation of customs rules in the application of refining procedures;

—in other cases defined by the laws of the Russian Federation, including where the finding of the RF Ministry of Economics is that such refining may harm the economy of the Russian Federation.

2.4. The license for export of petroleum for refining is compiled and registered by the customs office in three copies (Appendix 2).

In this situation:

—the first copy remains at the customs office for control;

—the second copy is issued to the applicant;

—and the third copy is sent to the department of customs regulations of the Administration for Organization of Customs Monitoring of the GTK.

3. Special Features of Formal Customs Procedures for Export of Petroleum for Refining

3.1. The customs formalities for petroleum are performed by the customs office that issued the license.

3.2. An essential condition of customs clearance of petroleum is a written authorization from the RF Ministry of Fuel and Energy to include the shipment of petroleum in the pumping schedule of the Transneft AK [Joint-Stock Company] for the next month.

3.3. Petroleum being exported is subject to export customs charges.

Petroleum may be conditionally released for refining outside the customs territory with exemption from the imposition of export customs charges in cases established by normative documents of the Russian GTK.

4. Special Features of Declaring Petroleum Being Shipped for Refining by Pipeline

4.1. Declaration of the petroleum being delivered for refining is done by submitting to the customs organ of the Russian Federation which issued the refining license a group customs declaration (hereinafter called "GCD").

The GCD is filled out in conformity with Order No 343 of the Russian GTK dated 5 July 1994, with due consideration of the following special features:

—information about transportation documents is not declared;

—in Column 31, entitled "Loading places and description of goods," the declarant makes the following additional entry: "Delivery..." and gives the delivery date.

4.2. A declaration is made with respect to each shipment of petroleum subject to delivery.

4.3. The GCD is delivered to the customs organ.

Concurrently with the GCD the declarant submits to the customs organs the documents and information necessary to produce petroleum in conformity with the customs regulations for refining outside the customs territory. The customs organ has the right to require, and the declarant must provide, additional information necessary for purposes of customs control.

4.4. The actual quantity of the commodity delivered cannot exceed the quantity declared in the GCD.

The GCD is filled out in four copies which, upon completion of customs formalities, are distributed as follows:

—the first copy remains at the customs office;

—the second copy is sent by the customs office to the Energy Customs Office no later than the next working day after the production of the commodity;

—the third copy is returned to the declarant;

—the fourth copy is sent by the declarant to the Transneft AK.

5. Special Features of Customs Formalities for Products of Refining

5.1. The return time for products of petroleum refining cannot be more than six months from the date of customs clearance of the particular shipment of petroleum.

5.2. Products of petroleum refining cannot be left in the customs territory of the refiner-country or exported to any other state except in cases stipulated in intergovernmental agreements.

5.3. In the case of customs clearance of products of petroleum refining in the zone of activities of other customs offices a supplement to the license is made up, in arbitrary form, which indicates:

—the customs office in whose zone the refining products being imported are being cleared;

—the organization that received the license;

—the number of the export GCD for the shipment of petroleum from which refining products are being imported to the Russian Federation;

—the codes of the refining products which can be cleared in the zone of activities of the indicated customs office, according to the TN VED [Table of Article Descriptions in Foreign Economic Activity], and their respective quantities and customs values.

The supplement to the license is filled out in two copies and verified by the signature of the authorized customs official and the seal of the customs office that issued the license.

In this case the first copy of the supplement remains at the customs office which issued the license and is stored with the license for control, while the second copy of the supplement is given to the applicant to present to the customs office in whose zone of activities the products of refining will be cleared.

5.4. A change from customs treatment for refining outside the customs territory in relation to petroleum exported outside the customs territory of the Russian Federation to customs treatment for export is possible only with the appropriate authorization from the Russian GTK, reconciled with the RF Ministry of Fuel and Energy following written application by the person who received the license.

6. Return of Customs Charges

6.1. The amounts of export customs charges paid for petroleum exported for refining are returned after all the products of the refining are released for free circulation in the customs territory of the Russian Federation; payment is made in the currency of payment, if all the terms stipulated in the refining license have been met.

In this situation the export customs charges are repaid or given as a credit against future payments by the customs office on the basis of a written application by the payer within one month's time.

7. Accounting for Shipment of Petroleum

7.1. The Russian GTK organizes record keeping on shipment of petroleum for refining outside the customs territory of the Russian Federation and the return of petroleum products, and each quarter communicates these figures to the RF Ministry of Fuel and Energy and the RF Ministry of Economics on an operational basis.

Agreed upon by:

Deputy RF Minister of Economics N. G. Shamrayev

First Deputy RF Minister of Fuel and Energy A. V. Fomin

Deputy RF Minister of Foreign Economic Relations V. G. Karastin

23 February 1995 Order No 122 of the RF State Customs Committee on Ratification of the Statute on Formal Customs Procedures for the Export of Petroleum by Pipeline for Refining Outside the Customs Territory of the Russian Federation (Registered by the RF Ministry of Justice, No 899 on 10 July 1995)

For the purpose of executing Point 7 of Decree No 1446 of the Government of the Russian Federation entitled "The Export of Petroleum and Petroleum Products Outside the Customs Territory of the Russian Federation as of 1 January 1995" and dated 31 December 1994, I order as follows:

1. The attached Statute on the Formal Customs Procedures for Export of Petroleum by Pipeline for Refining Outside the Customs Territory of the Russian Federation is ratified.

2. It is stipulated that the export of petroleum outside the borders of the Russian Federation for refining is done in the established manner by petroleum extracting enterprises and by joint-stock petroleum companies formed (being formed) in execution of decrees of the Government of the Russian Federation in conformity with Edict No 327 of the RF president, dated 1 April 1995.

3. The GTK Press Center (A. P. Yevstigneyeva) will begin presenting the statute in the mass information media from the day that this order is signed.

4. S. M. Bekov, chairman of the Russian GTK, is in charge of monitoring execution of this order.

[Signed] V. F. Kruglikov, first deputy chairman of the Russian GTK

*Opening Russian Airspace to Flights Between North America, Eurasia

954E1303A Moscow IZVESTIYA in Russian
17 Aug 95 p 5

[Interview with V. Shelkovnikov, chairman of Rosæronavigatsiya, by G. Bocharov; place and date not given: "Presidential Instruction. How and Why Russian Airspace Will Be Opened"]

[FBIS Translated Text] This conversation with Valeriy Shelkovnikov, chairman of Rosæronavigatsiya, took place right after the president issued his instructions to the country's premier.

[Bocharov] Valeriy Georgiyevich! The aviation initiative of Russia is news No.1 to the international community, is it not?

[Shelkovnikov] Undoubtedly it is. This is a true revolution.

[Bocharov] Using the word revolution does not disturb you?

[Shelkovnikov] No, it does not. We are not talking about the storming of a palace. A new approach to the use of Russian airspace means the disruption of traditional airline routes as we have known them on the scale of the entire planet.

[Bocharov] But during Soviet times the planet managed quite well without our airspace.

[Shelkovnikov] At one time man himself got by just fine without airplanes. Those times, however, are known as primitive while the 20th century is the aviation century.

[Bocharov] What exactly will happen when the skies are unlocked? From where to where will the aircraft be flying? What parts of Russia will be under the busiest routes?

[Shelkovnikov] I shall explain. (We walk over to a map published on page 1). Aircraft from the United States, Canada, and the Scandinavian countries will link the countries of Southeast Asia, India, China, and Australia with the aid of new routes over the North Pole, the Arctic Ocean, and Siberia. Very intensive air traffic will also develop in the airspace of the Russian Far East. Some 18 foreign airlines are already awaiting the opening of routes over there. They are airlines from Singapore, Thailand, South Korea, China, and others. They are prepared to pay millions of dollars for the right to fly the shorter routes.

[Bocharov] Are you saying that all advantages of "the new sky" are already known? Someone calculated them? That does not sound like something we would do.

[Shelkovnikov] Times change and so do we. We make calculations. Annual proceeds for Russia come to \$450-500 million. Those are our estimates. Approximately the same conclusion was reached by IATA [International Air Transport Association] specialists.

[Bocharov] In that case, how does this compare with the figure of \$900 million which appeared in the western press supposedly indicating what is being earned by the Flight Control Corporation (UVD) of Germany, with its sky, which is miniature by comparison with Russia? It is true, however, this figure has not been confirmed by anyone. It has never been verified.

[Shelkovnikov] It should be verified. In any case everything is determined by practice. It is necessary to determine in principle whether that is profitable or not. Figures, however, usually depend on our ability to work

and not only on the ability to count, of which economists in the epoch of five-year plans were so proud.

[Bocharov] There is an opinion that the "revolution" in the sky will lead to an unprecedented hike in landing tariffs both for Russian and foreign air transporters. As a result foreign air carriers will begin to stubbornly fly around not only the new, but even the former, well-traveled, zones of the Russian sky, while domestic carriers will quit flying altogether and shift over to highway transport.

[Shelkovnikov] What can one say? Both the domestic and foreign users must know that arbitrary actions in these matters are impermissible. The first to perish are the initiators themselves. The professional understands that tariffs must be constructed to cover operating expenses while at the same time also financing development of the branch—in this case the UVD. Also, naturally through the tax mechanism, they must help the country's economy as a whole. If tariffs are raised beyond that, one stands to lose everything.

[Bocharov] Today the country has no start-up money.

[Shelkovnikov] But those who are interested in its sky do have it, those who spend colossal amounts of money flying around its territory. They are the ones the UVD system should be getting its money from, on loan, for the creation of new routes. After a short period of time the routes pay for themselves and start earning profits. Such is the mechanics of investment and financial practice.

[Bocharov] All right. Is there a danger that the new Russian air routes will be used exclusively by foreign airlines while the Russian ones will have to be satisfied with the former ones that are not too profitable? What do you say to the remark that land and natural wealth of Russia has already been sold, so now they are selling the sky?

[Shelkovnikov] Such observations are usually made by people who are completely unacquainted with the true state of affairs or by politicians. With all of the advantages of foreign currency levies on foreign airlines for landing rights (so far those levies are somewhat lower than revenues from domestic carriers) preference, of course, will be given to Russian airlines. Such matters, just as the entire activity of the UVD, are regulated by national and international enforceable enactments. We are official members of the ICAO [International Civil Aviation Organization], with corresponding duties and powers. By the way, let me note that the first to fly along the shortest routes to North America will be aviators of Krasnoyarsk, Norilsk, Yakutsk, and Tyumen. In

connection with the presidential instructions, Aeroflot—Russian International Airlines, already began studies of the possibilities of flying to America along the route pioneered by Chkalov.

[Bocharov] Valeriy Georgiyevich! The beginning of flights within the boundaries of recent "polar possessions of the USSR," as I understand it, marks the end of the famous Filkin Charter of 15 April 1926. At that time, as is widely known, the Soviet government before a stunned world declared that all islands, lands, and the corresponding air space from the northern coastline of the USSR to the very North Pole are Soviet possessions. Are these former possessions adapted for aerial navigation?

[Shelkovnikov] It is possible to put it this way: communications and means of navigation constitute the main problems of the Arctic region. For more than half a century everything that was in the Soviet sector of the Arctic region was subordinated exclusively to military needs. That gigantic expanse of ice was viewed as a possible theater of military operations.

[Bocharov] It is being regarded by certain generals as such at present as well.

[Shelkovnikov] As a rule only local flights were made. Franz Josef Land, Novaya Zemlya, New Siberian Islands, Dickson Island, etc. I began my career as an air controller over there, in the Arctic region. All that is left from those times is an aerial navigation void, which is good.

[Bocharov] What is good about that?

[Shelkovnikov] The fact that we do not have to invest vast sums in the maintenance of traditional types of communications and navigational aids. We do not have to blow up permafrost in order to lay cable. There is no need to install cumbersome radar sites in areas of the Arctic that are poorly suited for work or living. We will be starting with a clean slate; that is, with satellite technology and space communications. Russia occupies the leading positions in that sphere. What has been developed by our scientists has no parallel. Ros aeronavigatsiya has recently purchased 22 ground satellite communication stations, which are excellent facilities, from Krasnoyarsk. Academician Mikhail Reshetnev, who supervised the development of these stations (just as numerous other facilities) even proposed the creation of a unified center for management of satellite communications in aviation. That is a technically realizable project. The interest of aviators and domestic manufacturers in such a turn of events is apparent. Most of the regions, particularly in the north, Siberia, and the Far East, are also in favor of

it. Priority action is up to the aerial navigators, closely followed by the downstream beneficiaries such as the kray and oblast administrations, and, third, businessmen, banks, insurance companies, etc. Aviation is capable of bringing very many areas up to speed.

[Bocharov] Aviation communications is thus up to Russia alone with the opening of Russian airspace in the Arctic and the Far East. Did I understand that correctly?

[Shelkovnikov] That is correct, but communications is only half of the issue. The second part involves navigational aids. It may be said that this is a rather dramatic problem.

[Bocharov] What is the drama?

[Shelkovnikov] There are two great navigational systems in the world. One was developed in the United States and is called Navstar. The other one was developed in the USSR and is known as Glonass. Both are products of the "cold war," the arms race, and preparations for "star wars." It is specifically they, both of these (global positioning) systems, that are capable of determining success in the rebuilding of communications along world airline routes in connection with the opening of Russian airspace.

[Bocharov] Let them do that then. Or is unclear as to which one of them is better?

[Shelkovnikov] It is clear. As they say, they are both better.

[Bocharov] But both of them are military systems?

[Shelkovnikov] For some time just one of them has been exclusively military—ours. A typically American situation developed with the American system. Leading newspapers and television broadcasters in America—and as commonly known, they do not allow any issue pertaining to civil aviation to escape their attention—took to task the military owners of Navstar. The mass media asked a simple but a strong question: why is the best navigational system in the world not working for them, those with whose money it was developed, i.e. the taxpayers, all of whom are air passengers? The deed was done. Navstar became GPS [Global Positioning System], a system for civilian users, which allowed a radical improvement in flight safety. The coup de grace was administered by President Clinton who offered the GPS system to ICAO, that is to the entire world aviation community.

[Bocharov] A wonderful story, but an American one. What is the situation with the Russian system? After all billions were invested in Glonass as well, but that was our money. There is only one owner however: the

missile forces, which are a microscopic part of our vast society.

[Shelkovnikov] There are certain problems in that area.

[Bocharov] We cannot seem to take a single step without some, naturally.

[Shelkovnikov] There are reasons because of which Glonas cannot now serve the interests of civil aviation. The first one is that the Russian Tu-154, Il-62, Il-86, and even the newest Il-96 are not equipped with receivers capable of operating in the Glonas system. Only military aircraft, such as the Tu-160, for instance, "the black jet" by western classification, can do so. The second reason is that when operating in equatorial regions our system malfunctions.

[Bocharov] So it is inferior to the American system?

[Shelkovnikov] To the same degree to which the American system is inferior to ours. The GPS, by contrast with the Russian system, operates beautifully in countries close to the equator, in tropical zones, but it misfires closer to the poles; that is above the Arctic and Antarctic regions. I repeat that in this area the Russian system is beyond competition.

[Bocharov] A tough problem. Can it be resolved?

[Shelkovnikov] The brightest minds in Russia and America are working on that. The goal is to unify, combine the merits of both systems while eliminating the shortcomings, and creating a single receiver capable of serving civil aviation anywhere in the world.

[Bocharov] A worthy goal. Who is working toward it?

[Shelkovnikov] The group of Russian specialists who are working in cooperation with their colleagues at Rockwell, Hughes, and other famous "star firms" of the United States, is led by Academician Yevgeniy Fedosov. He is the undisputed authority in the field of aeronautics. Therefore one cannot doubt a successful outcome.

[Bocharov] Who specifically is involved in the resolution of the entire complex of problems associated with the opening of Russian air space? Beside Russia, of course.

[Shelkovnikov] That work includes ICAO, IATA, the largest airlines of the world: Finnair, SAS, KLM, United Airlines, Northwest, and others. All possible aid is being extended by the International Aviation Safety Foundation. The Aviation Safety Foundation of Russia is a collective member (its president is V. Shelkovnikov—author) The forthcoming changes make up topic number one at international conferences and meetings taking place in Honolulu, San Diego, Bangkok, and Geneva.

The meetings include participation of not just aviators; increasingly frequent appearances are also being made by politicians, economists, and jurists working on issues pertaining to air transport law. Some of the more discerning heads of airline companies, considering the certainty of high potential revenues, are prepared to finance work to equip Russian airspace and create a new technical infrastructure for the new airline routes. The more cautious ones, as is the rule, are still looking into it. At the same time, according to the estimates made by scientists, for instance, by Jerry Thompson, by the middle of the 21st century some 75 percent of world air shipments will take place over the North Pole, over the Arctic Ocean. That is a thrilling prospect.

[Bocharov] It seems that you believe all of this can be realized.

[Shelkovnikov] I do believe this. Despite great economic, technical, and organizational difficulties, I believe it. I feel certain that in the not too distant future we will be able to easily fly over the entire world, and the entire world will be able to fly in peace over Russia. It is, however, necessary to work responsibly and intensively to that end.

***Urals Aluminum Plant Shareholders To Join Industry Group**

954E1323A Moscow KOMMERSANT-DAILY
in Russian 22 Aug 95 p 10

[Article by Viktor Smirnov: "Contenders for Ural Aluminum Reached a Friendly Agreement"]

[FBIS Translated Text] A fierce struggle broke out this summer over the control of aluminum enterprises in the Urals. It was expected to reach its peak on 18 August, at a meeting of the stockholders of the Ural Aluminum Plant (UAZ), but the contenders managed to agree that the competing sides—the "Renova" Russian-American joint venture and the "Aluminum Company of the Urals" (ALKUR), representing the interests of the "Rossiyskiy Kredit" group—would vote unanimously on all items on the agenda at the meeting. The stockholders approved the plant's membership in the "Siberian-Ural-Aluminum" FPG [financial-industrial group].

The UAZ (in Kamensk-Uralskiy in Sverdlovsk Oblast) was built in 1939. The fixed capital of the enterprise is outdated. The plant launched a renovation program in 1988, and this work is now being done in around half of the enterprise's production facilities. The plant invested around 140 billion rubles of its own in the program. This money was used for the renovation of the heat treatment shop

and the aluminum oxide and electrolytic production units. Total profits in the first half of 1995 were 85 billion rubles.

The Fight Over the Controlling Block of Stock

Two companies—ALKUR and the "Renova" Russian-American joint venture—were vying for the controlling block of stock in the UAZ. The positions of the contenders were clearly unequal (KOMMERSANT reported this on 16 August). ALKUR had discredited itself with the UAZ administration, while the "Renova" joint venture, on the other hand, had a special understanding with the plant managers after a lengthy period of cooperation.

The "Renova" joint venture began buying up UAZ stock in October 1994. This was a smooth and steady process for more than half a year. At the beginning of this summer, however, the joint venture acquired a serious rival—the "Rossiyskiy Kredit" group. On the initiative of "Rossiyskiy Kredit," a new financial holding company, the "Aluminum Corporation" (ALKOR), was established in Moscow in June 1995. ALKUR, with all of its stock in the aluminum enterprises of the Central Ural zone, became a co-founder of ALKOR with the approval of Chairman Sergey Belyayev of the RF State Property Committee and by a decision of the Sverdlovsk Oblast Property Committee. Because of this, "Rossiyskiy Kredit" had to buy only 6.5 percent of the stock to have the controlling block.

The rivals stepped up their efforts to buy up the shares of plant workers. "Rossiyskiy Kredit" was in a weaker position and began to drive the price up. As a result, the market quotations had reached fantastic heights just before the meeting: The "Renova" joint venture was offering 1.4 million rubles per share, and "Rossiyskiy Kredit" was offering 1.8 million. According to some estimates, the rivals spent a combined total of around 10 million U.S. dollars buying up the stock.

Another important factor of the fight over the controlling stock was the fact that it was being waged during the gubernatorial campaign in Sverdlovsk Oblast. Each of the main candidates, Eduard Rossel and Aleksey Strakhov, used the so-called aluminum affair in his own way to bolster his own position. Rossel, an active fighter for regional autonomy who had gained overwhelming support from the UAZ in the first round of the election, railed against the destructive and illegal intervention of Moscow capital in the Ural region. Strakhov, on the other hand, gave the Muscovite structures credit for preserving and developing the aluminum complex in the Urals, citing the example of the "Sevuralboksitrud" enterprise, which had managed to stop operating at a loss with the help of "Rossiyskiy Kredit." According to

some observers, it was Strakhov that initiated the fierce struggle for control over the enterprises of the aluminum complex in the Urals.

The Aluminum Industry in the Urals Is Destined To Be Controlled by Holding Companies

Some time ago, "Renova" suggested the creation of the "Siberian-Ural-Aluminum" (SUA) interregional financial-industrial group to the RF Government Council on Industry Policy, headed by First Vice Premier Oleg Soskovets. The FPG was supposed to be established on the basis of the Irkutsk and Ural aluminum plants and a group of cable production enterprises (the Irkutsk Cable Plant, "Kamkabel," "Amurkabel" and others). Mosbiznesbank, one of the shareholders of which was "Renova," and Uralmetkombank (in Kamensk-Uralskiy), one of the largest shareholders of which was the Ural Aluminum Plant, were expected to become the financial basis of the group.

Economic feasibility studies of the creation of the FPG include the traditional arrangements: UAZ would supply the Irkutsk Aluminum Plant with raw material (aluminum oxide), that plant would use it in the production of aluminum wire and sell the wire to cable enterprises, and they would then produce items used mainly in the power engineering network. That is why regional power systems were also expected to join the SUA group. "Sverdlovenergo" and "Irkutskenergo" had already agreed to do this. In general, positive responses to the idea of the SUA group had already been received from more than 20 different enterprises. Raw material sources were also expected to join the group. The South-Ural Bauxite Mine was willing to join.

In fact, the recent establishment of holding companies in the aluminum industry has been solely due to the efforts of the initiators of the group to "attach" domestic aluminum oxide production units, in this case the UAZ, to themselves. The Russian producers of alumina seem particularly appealing now that the price of aluminum oxide in the world market has risen so dramatically.

Oleg Soskovets, as always, endorsed the idea of establishing another holding company in the aluminum industry and instructed the RF State Property Committee, the Committee on Metallurgy, the Ministry of Economics, and the Ministry of Finance to draw up the appropriate documents.

Peaceful Coexistence Is Still Possible

Obviously, the inclusion of "Rossiyskiy Kredit" among the main co-owners of UAZ could have wrecked the plans to create the FPG. "Renova" made several attempts to stabilize the situation and, as representatives of

the joint venture announced at the stockholders' meeting, would hold special negotiations with any interested shareholders. According to observers, it was Oleg Soskovets' intervention in the conflict and the position of the RF State Property Committee that allowed the opposing sides to sit down at the negotiating table to find a peaceful way of resolving the conflict. Directive No 1032-r of the RF State Property Committee, signed by First Deputy Chairman Alfred Kokh, rescinded Resolution No 531 of the Sverdlovsk Property Committee of 13 June 1995 "On the Establishment of the 'Aluminum Corporation' (ALKOR) Closed Joint-Stock Company." Of course, judicial bodies will have the final word.

According to some reports, on 14 August representatives of the "Renova" joint venture, "Rossiyskiy Kredit," and ALKUR met in Moscow and agreed to discuss any existing constructive plans for the development of aluminum production and the technological unification of specialized enterprises on the basis of regional and interregional cooperation. In an open letter to the stockholders and management of UAZ, they expressed their certainty that they could make the right decisions and implement them with the support of the plant management and labor collective, the enterprise stockholders, and the Sverdlovsk Oblast Administration. The other reasons for the mutual concessions are open to conjecture. In this way, a precedent was set in the Urals: During the redistribution of property, the competing sides were able to find a common language and arrive at a peaceful agreement.

As a result, the special stockholders' meeting on 18 August was held in a calm and businesslike atmosphere. There were two main items on the agenda: the results of UAZ operations in the first half of 1995 and membership in the SUA financial-industrial group. The meeting was attended by 45 stockholders with a combined total of 98.1 percent of all the votes. The items on the agenda were approved unanimously and almost without any discussion, so the meeting took only an hour and a half. The voting was done primarily by representatives of the "Renova" joint venture, to whom ALKUR and "Rossiyskiy Kredit" had entrusted their shares. The price of UAZ stock today is only 40,000 rubles.

***Chromium Processing Industry Faces 'Critical' Situation**

954F3244A Moscow SEGODNYA in Russian
22 Aug 95 p 10

[Article by Yevgeniy Spiridonov: "Producers Have Become the Victims of Kazakh-Japanese Tolling: The Mo-

nopolistic Status of the Donskoy Ore-Dressing Combine Is Stopping the Work at Ferroalloy Plants"]

[FBIS Translated Text] The Serov Ferroalloy Plant and the Chelyabinsk Electrometallurgical Plant are not getting any chromium ore from the Donskoy GOK [Ore-Dressing Combine], which produces one-third of the world output. For this reason, the plants cannot supply domestic producers of stainless steel and special alloys with alloying materials. This was announced at a meeting of the collegium of Roskommetsallurgiya [RF Committee on Metallurgy], held to discuss the prospects for the provision of steel producers with ferroalloys.

In December 1993 the CIS heads of government signed an agreement in Ashgabat on the support of cooperative production by enterprises. In October 1994 reciprocal shipments in the metallurgical complex were also negotiated on the sectorial level. On 10 May 1995 Roskommetsallurgiya and the Kazakhstan Ministry of Industry and Trade agreed on the amount of chromium ore to be shipped by the Donskoy GOK this year for the needs of Russian ferroalloy plants—1.02 million tonnes. In the first seven months of 1995, however, the Donskoy GOK had shipped only 366,000 tonnes.

As speakers noted at the meeting, the uncertainty of shipments of chromium ore by the Donskoy GOK is a result of the establishment of the "Kazkhrom" transnational company in Kazakhstan in June 1994. This company, made up of the Donskoy GOK and the Aqtobe and Yermakov ferroalloy plants, was put under the control of JCC, a Japanese mining corporation, for five years. The fulfillment of contracts for deliveries of chromium ore to Russia was suspended by the company.

A delegation from Roskommetsallurgiya went to Kazakhstan right away to arrange for the resumption of the deliveries. The delegates were able to hold a conference in the Kazakhstan Ministry of Industry and Trade. The record of that meeting says that "an agreement was reached with 'Kazkhrom' on shipments of ore to Russian enterprises in the second half of 1995 totaling 510,000 tonnes." As General Director Sergey Sokolov of the Serov Ferroalloy Plant told the SEGODNYA correspondent, however, the enterprise managed to conclude a contract with the JCC company for August for only 45,000 tonnes of chromium ore, which the Serov plant is supposed to process and then give the company 50 percent of the ferroalloys derived from it. This means that Russian consumers of steel should not expect alloying materials from the Serov plant in August.

Vice-President Ivan Neshchadim of Roskommetsallurgiya's "Spetsstal" company believes that this turn of events is a result of "Kazkhrom's" decision to authorize the Cromex and "Belroy" commercial firms

to negotiate contracts for deliveries of chromium ore to Russia. They immediately stipulated that the ore would be supplied only on the basis of tolls. They will not assume any other commitments connected with intergovernmental and intersectorial agreements. In other words, the possibility of direct contracts between the Donskoy GOK and Russian ferroalloy plants is excluded. According to Mr. Neshchadim, this means that the JCC corporation intends to process the chromium ore at Russian plants and then sell the finished alloying materials to Russian steel producers. Furthermore, he said, it is already acting on this intention, because JCC's agents are already telling metallurgists: "If you do not sign a contract with us, you will not get any ferroalloys at all."

The prospect of supplying Russian steel producers with alloying materials derived from Kazakhstan's chromium ore, according to Roskommetsallurgiya Chairman Serafim Afonin, has been defined in the most explicit terms: The JCC will stop sending chromium ore from the Donskoy GOK to Russia. In other words, it will be processed at the Yermakov and Aqtobe ferroalloy plants in Kazakhstan. Our domestic processors of chromium ore in Serov and Chelyabinsk will be out of work. The JCC will dictate the prices of alloying materials in the foreign market.

The administrators of the ferroalloy plants told the collegium at the meeting that they were willing to buy chromium ore in Kazakhstan at world prices and had offered the JCC advance payment in foreign currency, but they want to work with it on direct contracts. In tolling operations, they will not own the products derived from the chromium ore. That is why the directors urged the collegium to take resolute measures

against the monopolists. Only the ore for the production of ferroalloys comes from Kazakhstan. Everything else is supplied by the Russian side, without any special conditions, in an intergovernmental clearing agreement with Kazakhstan—the electrical power, the transport vehicles, the coke, the refractory materials, the electrode mass, and the wooden mine supports. That is why the matter has to be addressed directly, they said. "Give us Russia's share, or we will make some stipulations of our own."

Mr. Afonin agreed with the need to take measures against a monopolist on the international level, which is what the Donskoy GOK is becoming, but the methods have to be civilized. The Russian State should protect its producers, but it also has to seek ways of coordinating the economic interests of the ferroalloy plants with those of the supplier of the chromium ore, regardless of the status of that supplier.

No definite decisions were made at the meeting. The need to unite suppliers and consumers in a hypothetical financial-industrial group for the extraction of chromium ore and the production of chromium ferroalloys was acknowledged. The metallurgical and ferroalloy enterprises were advised to set up collective funds to finance exploratory projects for the development of chromium ore deposits in Russia (the Sopcheozerskoye, Rayizskoye, and Aganoozerskoye deposits in the Arctic zone). According to some members of the collegium and the directors of the ferroalloy plants, however, there is nothing there. For this reason, the prospects for the provision of Russian steel production with alloying materials are still extremely nebulous.

Economic Issues**1995 Crimea Privatization Program**

954F3110A Simferopol KRYMSKAYA GAZETA
in Russian 15 Aug pp 2-3

[Unattributed article: "Program for Privatization of the Property of State Enterprises in the Republic of Crimea for 1995"]

[FBIS Translated Text]

[Begin box] Decree of the Supreme Council of Crimea

On the Program for Privatization of Property of State Enterprises in the Republic of Crimea for 1995

The Supreme Council of Crimea decrees:

1. The Program for Privatization of the Property of State Enterprises in the Republic of Crimea for 1995 submitted by the Government of the Republic of Crimea (appended) shall be approved.
2. It shall be established that privatization of the property of state enterprises in the Republic of Crimea shall be carried out on the basis of existing legislation of Ukraine, taking into account the particularities established by the present Program.
3. City and rayon councils before 1 September 1995 shall develop and approve local privatization programs based on the requirement of the Program for Privatization of the Property of State Enterprises in the Republic of Crimea for 1995.
4. The present decree shall take effect from the moment of its publication.

[Signed] Deputy Chairman of the Supreme Council of Crimea A. Danelyan

Simferopol, 20 July 1995, No. 505-1 [End box]

[Begin box]

CONTENT**Part I**

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Section 2. Priorities of privatization

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Section 4. Branch particularities of privatization

Section 5. Procedure for utilization of privatization property certificates

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PART I

Conceptual Approaches to Privatization of Property of State Enterprises in the Republic of Crimea

Section 1**General Provisions**

One of the main components of the economic reform conducted in order to create a multi-structured, socially oriented economy shall be privatization of the property of state enterprises (henceforth— privatization).

Privatization shall envision the achievement of the following major objectives:

a change in the form of ownership of means of production for purposes of their effective utilization;

the creation of a class of nonstate owners;

the development of competition and restriction of monopolism;

the attraction of foreign investment;

the introduction into production of world achievements of science and technology and improvement of product quality and products' ability to compete;

saturation of the consumer market and reduction of the price level;

improvement of the standard of living of the population.

Privatization shall be carried out on the basis of the following principles:

legality;

openness;

nonreimbursable transfer to the population of part of the state property subject to privatization;

the granting of benefits to members of labor collectives of privatized enterprises;

priority of competitive means of selling the property of state enterprises.

As a result of conducting privatization, there shall be an essential change in the structure of property in the republic.

A prognosis of the data concerning this process during 1995-1997 is given in the table:

Property	Proportion of fixed capital as of 1 Jan 95, %	Prognosis of proportion in % as of 31 Dec		
		1995	1996	1997
Total, not including property of kolkhozes, consumers' cooperation, housing	100	100	100	100
including:				
state-owned	85.4	78	55	44
not state-owned	14.6	22	45	56

The Program for Privatization of the Property of State Enterprises in the Republic of Crimea (henceforth—Program) has been developed in compliance with the laws of Ukraine, "On Privatization of the Property of State Enterprises," "On the Privatization of Small State Enterprises (Small-Scale Privatization)," "On Making Changes and Additions to the Law of Ukraine, "On Leasing Property of State Enterprises and Organiza-

tions," the decrees of the Cabinet of Ministers of Ukraine, "On the Peculiarities of the Privatization of Property in the Agro-Industrial Complex," "On Privatization of Integrated Property Complexes of State Enterprises and Their Structural Subdivisions That Are Leased," and the edicts of the president of Ukraine, "On Privatization of Objects of Incomplete Construction," "On Measures Regarding Guaranteeing the Rights of Citizens To Use Privatization Property Certificates," "On Measures Regarding Acceleration of the Process of Small-Scale Privatization in Ukraine," "On Accelerated Privatization of Property in the Agro-Industrial Complex," "On Privatization of Automotive Fueling Stations That Sell Fuel and Lubricants Exclusively to the Population," and also other legislative and normative acts of Ukraine and the Republic of Crimea that regulate the process of privatization and take into account the peculiarities and priorities of privatization of property of the Republic of Crimea.

The present Program shall not apply to privatization of facilities of the state land and housing funds and facilities for sociocultural purposes (public health, public education, culture, and sports), with the exception of those belonging to privatized enterprises.

The provisions of the Program shall be mandatory for execution by organs of state executive power of the Republic of Crimea and local councils of people's deputies.

Section 2

Priorities of Privatization

The first to be privatized shall be objects of small-scale privatization and also objects that affect to the greatest degree the development of the consumer market or whose insufficiently effective activity retards the process of financial stabilization and impedes economic development and the formation of a market economy.

These objects shall include:

enterprises of retail trade and public catering, consumer services, and certain municipal service enterprises (hotel, landscaping, ceremonial services, and repair-construction enterprises);

enterprises of the construction and construction materials industry (without violating existing technological ties);

enterprises of local, timber and wood processing, and light industry;

enterprises operating at a loss in all branches of the national economy if their losses are not caused by the application of state-fixed and regulated prices and rates;

objects of incomplete construction financed with state capital investments and those for which the normative construction deadlines have already passed;

material and technical supply enterprises;

enterprises of tractor and agricultural machine building and also those that manufacture equipment for enterprises of trade, public catering, consumer services and housing and municipal services;

general purpose automotive freight transportation enterprises and taxi fleets;

enterprises with fixed capital of which more than 70 percent is worn out;

sovkhozes and poultry farms;

enterprises for processing agricultural products;

automotive fueling stations;

property (assets) of liquidated enterprises.

Section 3

Methods of Privatization of Various Groups of Facilities

3.1. Privatization of the property of state enterprises shall be carried out by the State Property Fund of Crimea and its regional representative offices (henceforth—privatization organs) through:

the sale of objects of privatization at auction, through competition, and through commercial competition;

the buying up of objects of small-scale privatization;

the sale of portions (shares, stakes) belonging to the state in the property of economic partnerships.

3.2. The sale of a privatized object from auction shall consist of direct transfer of the right of ownership to the buyer who offers the highest price during the course of the bidding.

3.3. The sale of objects of privatization through competition shall consist of transferring the right to ownership to the buyer who offers the best conditions for subsequent operation of the object.

3.4. The sale through commercial competition shall consist of transfer of the right to ownership to the buyer who, with the given initial conditions, has offered the highest price.

Sale through competition and commercial competition shall be conducted in cases when the buyer is required to meet certain conditions and also in the privatization of state enterprises that sell socially necessary goods (work, services).

The conditions of the competition may include:

the initial selling price of the object;

the investment program;

the implementation of measures for protection of the environment, the observance of ecological requirements, and ecological consequences of the operation of the object;

obligations for maintaining the specialization of the enterprise;

other conditions at the discretion of the competition commission.

The procedure for conducting auctions and competitions as well as commercial competitions shall be determined by the Statute on the Application of Methods of Privatization of Property of State Enterprises.

Competition, commercial competition, or auction may also be used to sell objects for which the partnership of buyers have not made payments by the deadline established by the purchase-sale contract.

Objects not sold through competition, commercial competition, or auction shall be subject to another sale. Here it shall be permitted to change the sales conditions, including the initial price, but not by more than 50 percent.

3.5. Buying up of objects of small-scale privatization.

The buying up of objects of small-scale privatization by partnerships of buyers created by workers of the given objects shall be applied in the event that they submit applications by the established deadline and there are no applications for privatization from other buyers.

In other cases, the privatization of the aforementioned objects shall be conducted on a competitive basis.

The buying up of objects of small-scale privatization by other buyers may be applied by a decision of the privatization organ with respect to objects that are not sold at auction or through competition.

3.6. The sale of objects of small-scale privatization shall be carried out along with buildings (structures, attached premises) in which the objects of privatization are located.

In cases where the buildings (structures, attached premises) are of ethnic, cultural, and historic-architectural value and are not subject to disposal or if the owner of the privatized property has refused to allow privatization of the corresponding premises, the aforementioned buildings (structures, attached premises) shall be turned over to the owner of the privatized enterprise under a long-term lease for a

period of no less than 10 years through the sale of a patent for the right to lease the premises. The value of patents for the right to lease premises shall be determined taking into account the potential production of profit of objects located in them in compliance with the existing Statute on Evaluating the Value of a Patent for the Right to Lease Buildings (Structures, Premises).

With privatization of property through purchase the price of buildings (structures, attached premises) in which objects of small-scale privatization are located shall be determined according to the results of an expert appraisal, the procedure for conducting which shall be established by the existing Statute.

3.7. The sale of portions (shares, stakes) belonging to the state in the property of economic partnerships shall be carried out by the method that envisions the sale of shares of public joint-stock companies created on the basis of privatized state enterprises to members of the labor collective and individuals on an equal footing with them under preferential conditions, for certificates at certificate auctions and the sale of the remaining shares for monetary funds under open subscription and blocks of shares at auction or through competition.

The portions (shares, stakes) belonging to the state in the property of economic partnerships with the mixed form of ownership shall be sold according to existing legislation in compliance with the regulations of these partnerships.

Privatization of integrated property complexes of state enterprises and their structural subdivisions that are leased (except objects of small-scale privatization) shall be carried out through the sale of shares belonging to the state in public joint-stock companies founded by privatization organs and leaseholders.

The decision to privatize the aforementioned objects shall be made by privatization organizations with the consent of the leaseholder.

In the absence of the consent of the leaseholder, the lease agreement may not be extended on the initiative of the leaseholder.

3.8. The value of the privatized object shall be determined on the basis of methods approved by the Decree of the Cabinet of Ministers of Ukraine of 18 January 1995, No. 36.

3.9. The right to ownership of state property shall be confirmed by a purchase-sales agreement concluded between the buyer and the privatization organ.

The purchase-sales agreement shall include the conditions envisioned by the privatization plan and the conditions for competition, auction, or purchase, the obli-

gations of the buyer and seller, and also the proposals of the executive committees of the local Councils concerning the peculiarities of further operation of the corresponding objects of privatization turned over by them to privatization organs by a deadline no later than a month from the day of the approval of the lists of objects subject to privatization.

The agreement shall be subject to notarization and registration by local councils of people's deputies.

After payment of the full sales price for the object or the down payment stipulated by the agreement, the authorized representative of the privatization organ and the new owner shall sign a document transferring the property of the state enterprise.

The buyer who has acquired the state property, as its new owner, shall be the legal successor to the property rights and obligations of the privatized enterprise in compliance with the conditions of the purchase-sales agreement and existing legislation. The privatization organ shall give notice of the termination of the activity of the state enterprise to statistical organs and the corresponding organs that conduct registration of enterprises and organizations.

3.10. Information about privatization.

Information about privatization shall include the following:

- on lists of enterprises subject to privatization;

- on lists of objects of privatization with an indication of the methods of privatization and their basic descriptions;

- on time periods and conditions for conducting auctions, competitions, and the sale of shares; this information shall be published no later than 30 calendar days before the date of the auction, competition, or sale of shares.

Information on the results of the sale of the object of privatization shall be published within 15 calendar days of the day of the disclosure (adoption) of the decision to sell the object.

Privatization organs shall publish the indicated information in the bulletin on privatization and official republic and local newspapers.

Section 4

Branch Peculiarities of Privatization

4.1. Peculiarities of privatization of property in the agro-industrial complex

4.1.1. Privatization of the property of sovkhozes and other state agricultural enterprises and organizations

may be carried out through transforming them into both collective agricultural enterprises and public joint-stock companies (by decisions of the partnerships of buyers created by the labor collectives). Members of labor collectives of enterprises shall be on an equal footing with individuals who have gone on pension or those who have been discharged because of staff cutbacks and are not working at other enterprises at the time of their discharge, and also individuals with the right, in compliance with existing legislation, to return to their preceding job at this enterprise and disabled persons discharged because of injury or occupational disease.

Moreover, members of labor collectives shall receive free of charge a part of the state property the amount of which shall be determined in compliance with the Statute on the Procedure for the Transformation of Sovkhozes and Other State Agricultural Enterprises and Organizations Into Collective Agricultural Enterprises as the product of the average value of property per one member of the collective agricultural enterprise (kolkhoz) and individuals on an equal footing with them in the Republic of Crimea and the number of these workers and individuals on an equal footing with them at the privatized enterprise.

4.1.2. The calculation of the average value of property due to one member of the collective agricultural enterprise (kolkhoz) shall be carried out by the Ministry of Agriculture and Food of Crimea and the State Committee of Crimea on Statistics as of the end of the year preceding the privatization of the sovkhozes and other agricultural enterprises based on data from state reports from collective agricultural enterprises (kolkhozes) and bookkeeping reports.

If the property is indexed, the indicator of the average value of the property shall also be clarified.

The distribution of the value of the part of the property turned over without payment (as shares) among members of the labor collective (taking into account individuals on an equal footing with them) shall be carried out according to the labor contribution of each worker.

The labor contribution of deported citizens who are members of the labor collective (and individuals on an equal footing with them) of privatized agricultural enterprises shall be determined taking into account the length of service in the last place of employment at agricultural enterprises located in the places of deportation.

The procedure for distribution of shares shall be determined at the general meeting of the labor collective.

The rest of the state property (in excess of the part that is not paid for) shall be privatized using privatiza-

tion property certificates. The right to priority acquisition of this property shall be enjoyed by members of the given agricultural enterprise who are employed in the social sphere in rural areas: workers in education, public health, culture, consumer services, communications, trade and public catering, law enforcement organs, councils of peoples' deputies and their executive committees, and also pensioners from among these individuals.

If during the process of the transformation of the property of sovkhozes and other state agricultural enterprises into collective enterprises part of the property remains unpurchased, the members of the labor collective shall have the right to acquire the part of the state property for their own funds with installment payments spread out over a period of three to five years (with interest at the rates set by the National Bank of Ukraine). If in this case during the course of six months all of the property is not sold for privatization property certificates its privatization shall be carried out through transformation of the enterprise into a public joint-stock company.

Privatization of the property of sovkhozes and other state agricultural enterprises, kolkhozes created on the basis of them, and interfarm agricultural enterprises founded by them without state purchase of their property, which during the period of their activity have not received budget funds for the acquisition of fixed capital and construction, shall be carried out through nonreimbursable transfer to the corresponding labor collectives. In the event that budget funds were used, the part of the state property formed with them shall be subject to privatization in compliance with point 4.1.8. of the present Program.

4.1.3. Privatization of enterprises for processing agricultural products, milling-cereal and the manufactured concentrated feed industry, automotive service and specialized automotive transportation, construction, firm trade, and nonagricultural enterprises and organizations of the agro-industrial complex, regardless of the value of the objects of privatization, shall be carried out through their transformation into public joint-stock companies.

Upon privatization of the given property, it shall be necessary to provide for technological unity of production and integrity of the property complexes.

Privatization of firm trade enterprises for sales of meat-dairy and fruit-vegetable products of specialized automotive transportation enterprises of the agro-industrial complex shall be conducted simultaneously with privatization of processing enterprises.

4.1.4. The right to preferential acquisition of shares in the amount of the privatization property certificate and

half of its value with an individual's own and borrowed funds and also with funds of labor collectives intended for these purposes shall be enjoyed in the following order:

workers of the privatized enterprise;

members of peasant (farmer-run) farms, workers of collective and state agricultural enterprises, and other agricultural commodity producers.

On an equal footing with enterprise workers are individuals indicated in point 4.1.1., part 1.

If the aforementioned individuals have not purchased preferential shares within the established quota, nonstate agricultural enterprises shall have the right to require them with their own funds, and if they have not purchased them within a year of the day they go on sale, these shares shall be sold on a general basis according to existing legislation.

4.1.5. Shares shall be distributed among agricultural commodity producers and nonstate agricultural enterprises in proportion to the volumes of raw material turned over to the privatized facility or services rendered during the year preceding the privatization.

4.1.6. When a joint-stock company is transformed, a preferential right to the acquisition of no less than 51 percent of the shares shall be enjoyed by members of the labor collective, agricultural commodity producers, and individuals on an equal footing with them, and also nonstate agricultural enterprises (collective agricultural enterprises, kolkhozes, peasant unions, unions of cooperatives, etc.). The specific amount of the quota shall be established in the plan for distribution of shares in compliance with the Statute on the Procedure for Preferential Sale to Agricultural Commodity Producers of Shares in Enterprises and Organizations of the Agro-Industrial Complex.

4.1.7. Upon privatization of the property of enterprises and organizations subject to privatization, the proportion of shares temporarily remaining as state property shall be determined in coordination with the Government of Crimea.

4.1.8. Privatization of part of the state property of enterprises of the agro-industrial complex with the mixed form of ownership, including leasing, shall be done through their transformation into public joint-stock companies with sale of shares belonging to the state, including for privatization property certificates according to the procedure envisioned by points 4.1.1.-4.1.6. of the present Program.

4.1.9. State enterprises and enterprises with the mixed form of ownership of the agro-industrial complex the

value of whose property is insufficient for the creation of a joint-stock company shall be privatized through the purchase by members of labor collectives of these enterprises and individuals indicated in point 4.1.1., part 1, with the utilization of privatization property certificates.

4.1.10. Upon privatization of the property of state enterprises of the agro-industrial complex indicated in articles 4.1.1. and 4.1.3., part 1, facilities for social and domestic purposes, utilities and municipal service facilities, including those constructed with money from social development funds, shall be turned over to communal (municipal) ownership of organs of local self-government and shall be financed in compliance with existing legislation.

4.2. Peculiarities of privatization of sanatorium-health resort and tourist facilities and hotels of health resort cities.

4.2.1. The privatization of sanatorium-health resort and tourist facilities and hotels of health resort cities shall be conducted in coordination of the Supreme Council and Government of Crimea through the creation of public joint-stock companies, the determination of the share belonging to the labor collective, and the establishment of quotas for privatization of part of the property by the population for privatization property certificates, as well as the sale of large blocks of shares (including controlling blocks) at investment tenders.

4.2.2. The value of these facilities shall be determined on the basis of an expert appraisal.

4.3.1. Privatization of automotive fueling stations.

Privatization of automotive fueling stations that sell fuel and lubricants exclusively to the population shall be carried out in compliance with the Edict of the President of Ukraine of 29 December 1993 No. 612/93, "On Privatization of Automotive Fueling Stations That Sell Fuel and Lubricants Exclusively to the Population," through their sale at auction. Moreover, no privatization commission shall be created and no privatization plan shall be developed.

The new owner shall be obliged to retain the profile of the activity of the automotive fueling stations for no less than 10 years from the conclusion of the purchase-sales agreement.

Section 5

Procedure for the Utilization of Privatization Property Certificates

5.1. Privatization property certificates shall be a special type of state securities that certify the right of the owner

to acquire shares of property of state enterprises during the privatization process.

5.2. The nominal value of the property transferred free of charge to each citizen of Ukraine as of 1 January 1995 shall be 50 million karbovantsy.

5.3. When there is a change in the general procedure for calculating the value of objects of privatization, the nominal value of the privatization property certificates shall also be subject to indexation.

5.4. The privatization property certificate was introduced into cash circulation effective 1 February 1995.

5.5. Up until 1 June, payments for objects of privatization could be made also in noncash form—from privatization deposit accounts. The residual funds in privatization deposit accounts opened by citizens may be used by them throughout the period when privatization papers are valid.

5.6. The period of validity of privatization property certificates shall extend until 31 December 1996.

5.7. Local councils of people's deputies in conjunction with internal affairs organizations and Sberbank branches shall constantly refine the lists of citizens with the right to acquire privatization property certificates until the end of the period of their validity.

Section 6

Sources of Funds for Acquiring State Property

6.1. The sources of funds for the privatization of the property of state enterprises shall be:

privatization property certificates (funds in deposit accounts);

certificates issued to citizens for the sum of indexation of monetary deposits and insurance payments;

the buyers' own and borrowed funds.

6.2. Privatization property certificates (funds in deposit accounts) shall be used to acquire objects of privatization in compliance with Section 5 of the present Program.

6.3. Certificates issued to citizens for the sum of the indexation of monetary deposits and insurance payments according to the Edict of the President of Ukraine of 24 November 1994, "On Compensation to Citizens of Ukraine for Costs of the Devaluation of Monetary Savings in Institutions of the Savings Bank of Ukraine and Ukrposstrakh," shall be subject to free circulation and used for privatization of state property with the exception of objects of small-scale

privatization, incomplete construction, and automotive fueling stations.

The nominal value of a certificate shall be a multiple of 1 million karbovantsy. The period of validity of the certificates shall last until 1 July 1997.

6.4. Funds that are the property of labor collectives of state and leased enterprises shall be utilized after they are personified, that is, after the share of profit of each member of the labor collective is determined.

After the determination of the personal share of the sum of funds of the labor collective for each worker, a personal privatization account shall be opened at the enterprise.

The funds from these accounts shall be transferred at the request of each worker to the account of the corresponding nonbudget privatization fund, company of buyers, or financial intermediary, and they may be used only for purposes of privatization.

6.5. The sources of borrowed funds during privatization may not be centralized credit resources of the National Bank of Ukraine, the Republic Bank of Crimea, or budget loans.

6.6. Buyers who have the right to participate in privatization according to existing legislation shall have the right to use money for the acquisition of objects of privatization only through noncash transfer from name-bearing accounts opened in banks within the limits of the funds kept in these accounts.

Settlements for objects of privatization in freely convertible currency shall be made through exchange accounts in commercial banks according to the procedure determined by the Republic Bank of Crimea.

6.7. Upon paying for the cost of the objects of privatization, the buyer shall submit a declaration of income according to existing legislation.

Section 7

Benefits to Workers of Privatized Enterprises

7.1. Upon acquisition of shares in privatized enterprises, workers of these enterprises shall be granted the right to priority acquisition of shares at their nominal value for the amount and with the use of the privatization property certificate and with their own funds at the nominal value—half the sum of the indicated certificate.

Benefits envisioned by the present article shall apply to former workers of enterprises who have gone on pension and those who have been released because of staff cutbacks and have not been employed from the time

of discharge at other enterprises as well as individuals with the right, in compliance with legislation, to return to their previous place of employment at the same enterprise and disabled persons discharged because of injury or occupational disease.

The aforementioned benefits shall be extended also to Heroes of the Soviet Union, full holders of the Order of Glory, and Heroes of Socialist Labor.

7.2 Members of organizations of leaseholders shall have the right to additional acquisition of shares belonging to the state at their nominal value within the limit of 25 percent of the authorized capital of the joint-stock company that is created by no more than the sum of one privatization property certificate for each member of the organization of leaseholders in the event that the value of the property submitted by the leaseholder to the authorized capital of the company and also the value of the shares acquired under preferential conditions by members of the organizations of leaseholders amount to less than 25 percent of the authorized capital of the given company.

7.3. A company of buyers created by workers of a privatized enterprise shall have a preferential right to acquisition over other participants in the competition, all other conditions being equal for the purchase of the given object of privatization, and shall also have the right, if they win in the competition or auction, to a 30-percent reduction of the sales price of an object of small-scale privatization, the premises in which it is located, the price of the patent for the right to lease the given premises or deferment of payment for a period of no more than three years under the condition that they make a down payment of no less than 30 percent of the sales price of the state property, premises, or patent for the right to lease (with the calculation of interest at the discount rate of the National Bank of Ukraine).

7.4. The company of buyers created by workers of an object of small-scale privatization which has not been the winner in an auction or competition shall receive reimbursement for 10 percent of the monetary funds received from the sale of the object, premises, or patent for the right to a long-term lease of nonresidential premises. The aforementioned money shall be paid out of the corresponding nonbudget privatization fund, local budget, or account of the leaseholder of the nonresidential premises and shall be distributed among the members of the labor collective on the basis of decisions of the general meeting of members of the labor collective.

In the event that the labor collective refuses the reimbursement funds, its members may not be discharged

from employment for one year on the initiative of the owner of the privatized object.

7.5. The company of buyers created by workers of the enterprise that has become its owner as a result of purchase of the enterprise, its acquisition at auction or through competition, or the acquisition of 51 percent or more of the shares, with its consent, privatization organs shall have transferred to it free of charge facilities for social and domestic purposes created with social development funds (analogous funds) of the aforementioned enterprise with a reduction of the price at which the property of the enterprise was acquired by the sum of the initial price of the facilities for social and domestic purposes.

7.6. If the deadlines for conducting privatization of the enterprises are complied with, the directors, their deputies, the head specialists, and the leaders of structural subdivisions shall have the right to the acquisition of additional shares of the company at their nominal value with a deferment of payment for one year for an overall amount of up to 5 percent of the authorized capital of the company after the acquisition of shares by workers of the enterprise under preferential conditions. The deferment of payment shall be granted under the condition that they deposit no less than 30 percent of the value of the acquired shares with the calculation of interest at the discount rate of the National Bank of Ukraine.

Section 8

Peculiarities of Privatization for Deported Citizens

8.1. When shares in public joint-stock companies are sold, the part of the shares remaining in the possession of the Republic of Crimea shall be reserved by privatization organs in compliance with the established quota and sold in closed auctions and competitions as citizens deported from Crimea and their descendants return.

The amount of the quota shall be established by the Government of Crimea, taking into account the implementation of the Program for the Return of Deported Peoples.

8.2. Citizens deported from Ukraine and their descendants residing outside Ukraine but returning to Crimea under the Program for the Return of Deported Peoples shall have the right to acquire state property during the process of privatization with payment for its cost in monetary units of Ukraine.

8.3. Deported citizens returning to Crimea for permanent residence shall gain the right to participate in privatization from the time they register, regardless of the date when they acquired Ukrainian citizenship.

8.4. Citizens deported from Crimea, members of their families, and their descendants residing outside the Ukraine shall have the right to be included on lists for obtaining privatization certificates (when they move to Crimea for permanent residence) for the entire period of return established by the State Program for the Return of Deported Peoples.

8.5. The conditions for preferential sale of shares for members of labor collectives shall extend to citizens deported from Crimea who are of working age and not employed because of the construction of their own housing who have corroborated this in compliance with the established procedure and also those registered as unemployed. The amount of the quota for preferential sale of shares for deported citizens shall be established by the plan for distribution of shares in coordination with the Government of Crimea.

8.6. Citizens deported from Crimea, members of their families, and their descendants shall be exempted from payment of state customs duties while filling out privatization papers.

Section 9

Conditions for Participation in Privatization by Foreign Buyers

9.1. Foreign investors (*) Foreign investors shall include agents of investment activity in compliance with the Decree of the Cabinet of Ministers of Ukraine, "On Conditions for Foreign Investment") shall participate in the privatization of property of enterprises owned by the Republic of Crimea according to the procedure established by the national conditions for the participation of foreign investors.

9.2. The Government of Crimea and the corresponding executive committees of local councils shall approve the list of objects owned by the Republic of Crimea or communally (municipally) owned whose privatization can be carried out expediently with the enlistment of foreign investments.

9.3. In the event that sales to foreign investors are conducted on other than a competitive basis, the value of the object of privatization shall be determined according to the results of an expert appraisal with the enlistment of domestic or foreign auditors, consulting firms, or investment banks in compliance with the established procedure. Expenditures to pay for the aforementioned services shall be included in the sales price of the object of privatization.

9.4. In order to enlist foreign buyers in the privatization, privatization organs shall provide them with the necessary information about the objects whose privatization

is to be conducted with the participation of foreign investors.

PART II

Assignments for Privatization, Areas for Utilization, and Norms for Distribution of Funds Received for Privatization, and Organizational Measures for Supporting the Privatization Process

Section 1

Objects of Privatization and Their Classification According to Value and the Possibility of Privatization

1.1. Objects of privatization shall be classified according to groups, depending on the initial (balance sheet) value of the fixed capital indicated in the balance-sheet report for the quarter preceding the date of the adoption by the privatization organ of the decision concerning privatization of the object and qualitative indicators, namely:

Group A—objects the value of whose fixed capital in prices as of 1 January 1995 have not exceeded 33.6 billion karbovantsy (except for enterprises of Group G);

Group B—objects the value of whose fixed capital in prices of 1 January 1995 was from 33.6 billion to 2.15 trillion karbovantsy and the proportion of the value of capital per one worker did not exceed the nominal value of the privatization property certificate by a factor of more than 1.5 (except enterprises of Group D);

Group C—objects the value of whose fixed capital in prices as of 1 January 1995 was from 33.6 billion to 2.15 trillion karbovantsy and the proportion of the value of capital per one worker exceeded the nominal value of the privatization property certificate by a factor of more than 1.5 (except enterprises of Group D);

Group D—monopoly enterprises deemed to be such in compliance with the established procedure regardless of their value: enterprises of the military-industrial complex subject to conversion in compliance with the corresponding program; enterprises whose privatization is carried out with the enlistment of foreign investments under international agreements of Ukraine; enterprises the value of whose fixed capital exceeds 2.15 trillion karbovantsy;

Group E—temporarily shut down objects and objects of incomplete construction and the property of liquidated bankrupt enterprises;

Group F—portions (stakes, shares) belonging to the state in the property of joint ventures and economic partnerships.

1.2. Objects owned by the Republic of Crimea shall be distributed in the following groups according to the possibility of privatization:

objects subject to privatization without coordination with the Government of Crimea;

objects subject to privatization in coordination with the Government of Crimea;

objects not subject to privatization.

1.3. Objects subject to privatization in coordination with the Government of Crimea.

This group shall include the objects owned by the Republic of Crimea listed below:

objects of civil defense subject to reprofiling;

refrigeration combines and warehouse facilities that provide for permanent housing of state reserves and storage of mobilization supplies;

scientific research, planning, planning-research and design- technological organizations and contract restoration enterprises;

enterprises and associations of the fuel-energy complex, including coal, oil-, and gas-processing enterprises and organizations, objects for petroleum product support, and oil storage facilities of republic significance;

enterprises and objects of electric energy engineering and central heating and electricity facilities;

general purpose automotive transportation and enterprises that provide service for it;

automotive transportation enterprises with mobilization assignments;

general purpose urban and suburban passenger automotive transportation;

health sanatoriums and resorts (pensions, houses of recreation, recreation bases), tourist enterprises, hotel facilities of health resort cities;

enterprises of other branches whose value exceeds 2.15 trillion karbovantsy (in prices of 1 January 1995);

monopoly enterprises regardless of their value;

enterprises privatized with the enlistment of foreign investment;

enterprises for producing medical equipment and medical items made of glass, porcelain, and polymer materials, enterprises of the chemical-pharmaceutical industry;

enterprises of the butter and fat industry;

bread combines, bakeries, and macaroni factories;

machine testing stations;

enterprises, organizations, and institutions of state veterinary medicine and Ukrzoovetsnab;

breeding and horse farms, selection-hybridization centers, strain-testing stations and sections, scientific research organizations, seed and seed-growing enterprises and organizations;

fisheries for spawning and raising fish;

fish-land reclamation stations.

The list of objects subject to privatization in coordination with the Government of Crimea shall be revised each year.

The privatization of enterprises occupying a monopolistic position in the regional commodity market shall be conducted in coordination with the corresponding organs of the Antimonopoly Committee of Ukraine.

The executive committees of the city and rayon councils shall independently draw up lists of enterprises that are communally (municipally) owned whose privatization shall be carried out in coordination with the corresponding council of people's deputies.

1.4. Objects not subject to privatization.

This group shall include the objects owned by the Republic of Crimea listed below:

the property of organs of state power and administration and law- enforcement and customs organs;

enterprises and institutions that provide for issuing securities and storing them and currency;

television and radio broadcasting centers;

enterprises of the geological, cartographical, and hydrometeorological services and services for monitoring the condition of the environment;

enterprises for the repair, manufacture, and accounting for all types of arms, explosives, and radioactive substances and enterprises that do explosive drilling work;

enterprises for producing and accounting for narcotic, bacteriological, biological, psychotropic, and strong-acting chemicals, poisons and precursors;

cemeteries;

highways for general republic use;

city electric commuter transportation;

main electric power transmission lines;

objects of state systems for standardization, metrology, and product certification;

oil and gas lines and other objects for pipeline transportation;

objects of the engineering infrastructure and amenities for cities, including mains, structures, and equipment related to the production and supply of water, gas and heat for consumers and also the removal and purification of waste water;

land-reclamation and protective structures and water reservoirs, the property of organizations that operate them;

special-purpose transportation;

anti-radiation installations;

property complexes that provide for permanent housing and storage of state reserves and mobilization supplies;

enterprises for reforestation, forest propagation and protection of forests;

port facilities, ports, the training and hydrographic fleet, ship inspectorates;

proving grounds, construction sites, installations, and equipment for burying industrial and household wastes and animal burial grounds;

monuments of history and culture, preserves, and parks;

objects for sociocultural purposes (public health, education, culture, and sports) until the adoption of a special law concerning their privatization; these same objects belonging to enterprises and departments may be privatized under the condition that their functions are preserved;

therapeutic sanatorium-health resort institutions (sanatorium centers, associations, mud baths, specialized children's camps of the sanatorium type, preventive treatment sanatoriums, health resort polyclinics, pensions with therapy) auxiliary institutions (health resort bureaus of the "health resort services" association, dietetic dining rooms, health complexes, centers, and children's health institutions);

objects of science financed from the budget and also institutions that are technologically related to educational and scientific processes;

leading book and newspaper publishers, enterprises of printing and the book trade, and other organizations on a list coordinated with the State Committee on Affairs of Publishing, Printing, and the Book Trade with the Fund for State Property;

enterprises that manufacture alcohol and liquor-vodka items.

The list of objects not subject to privatization shall be revised annually.

Restrictions regarding privatization shall not extend to structural subdivisions that do not carry out the basic activity of enterprises indicated in points 1.3 and 1.4.

Section 2

Procedure for Privatization

The privatization of the property of state enterprises owned by the Republic of Crimea shall be conducted according to the following procedure:

2.1. The State Property Fund of Crimea in conjunction with the Ministry of Economics of Crimea shall form lists of objects proposed for privatization.

The initiative for privatization may come from the labor collective of the enterprise or its structural subdivision, privatization organs, state administrative organs, or buyers—legal entities or nonstate legal entities.

In the formation of the lists of objects in Group A, it shall be necessary to single out into individual objects of privatization structural subdivisions (units) included in associations (enterprises) that have not brought their status into compliance with existing legislation (during the process of commercialization) and also those subdivisions (units) which may be singled out into individual enterprises, including those that produce analogous or mutually interchangeable types of goods (work, services).

State administrative organs may develop branch plans for privatization and recommendations approved by the Government of Crimea which must not contradict existing legislation on privatization or privatization programs.

2.2. List of objects proposed for privatization shall be approved by the Government of Crimea.

The State Property Fund of Crimea shall publish the approved lists in the mass media. The first lists shall be published no later than one month after the adoption of the Privatization Program.

The State Property Fund of Crimea shall notify the labor collectives of the inclusion of enterprises on the list within 15 days of the time of their approval.

2.3. Within a month after the publication of the lists, the buyers shall submit to the State Property Fund of Crimea statements concerning intentions to privatize objects on their own form without payment of a registration fee.

2.4. The State Property Fund of Crimea within a month shall consider the statements of intentions and draw

up lists indicating the method of privatization of the object, coordinate them with the Government of Crimea, approve them, and publish them in the mass media.

The date of approval of the list shall be the date of the adoption of the decision to privatize the object.

From the moment of the adoption of the decision for privatization of objects of Groups B, C, and D, the authority for management of state property during the period of preparing the object for privatization shall be exercised by ministries and state committees of Crimea in conjunction with the State Property Fund of Crimea.

With respect to the management of the property of objects of small-scale privatization (Group A) and also the premises in which these objects are located, the legal successor of the organs authorized to manage state property shall be the State Property Fund of Crimea.

Ministries and state committees of Crimea whose enterprises are included on the lists of privatized objects shall within two weeks of their approval submit to the State Property Fund of Crimea the founding documents of the enterprises (regulations, contracts with managers, etc.).

2.5. The State Property Fund of Crimea shall be obliged to notify the labor collectives of the privatized enterprises of the inclusion of the given objects in one of the lists within 15 days of the day of the adoption of the decision concerning privatization of the objects.

Within a month of the day of the publication of the lists, the buyers shall submit applications for privatization on the established form with the payment of a registration fee.

2.6. If the application for privatization is rejected the privatization organs shall notify the applicants of the reasons for the rejection.

Rejection of privatization shall be possible in the following cases:

the individual who submitted the application cannot be recognized as the buyer in compliance with legislation on privatization;

legislation has established restrictions on privatization of the given object;

the object has been included in the list of objects not subject to privatization;

the object has not been included in the corresponding list.

2.7. From the moment of the adoption of a decision on privatization of the property of a state enterprise, preparations for privatization shall begin, and with re-

spect to this property the following shall be suspended: parts 3, 5, and 6 of Article 10, parts 1 and 3 of Article 12, part 2 of Article 24, and part 3 of Article 25 of the law of Ukraine, "On Enterprises" with respect to the purchase, sale, transfer, exchange, leasing, and writing off of property, the acquisition of securities, the granting or receipt of credit in amounts in excess of the average annual level for such operations during the past three years. If these actions are necessary for effective functioning of the state enterprises whose properties are being privatized, they shall be conducted only with the permission of the privatization organs after application from the state administrative organs.

2.8. The preparation of state enterprises for privatization shall be conducted according to the following procedure:

For objects of small-scale privatization (Group A)

Privatization organs

for three days after the adoption of the decision for privatization, upon application of the manager of the enterprise, shall approve the composition of the commission for appraising the value of the property, which in compliance with existing methods for appraisal shall determine the value of the objects of privatization and draw up appraisal documents;

within a week's time consider and approve the appraisal documents, and determine the initial sales price of the objects at auction or through competition;

organize competitions and auctions for the sale of the objects.

The organization of leaseholders and the company of buyers created by workers of leased enterprises and their structural subdivisions that have been singled out into individual objects of privatization, including those whose leasing agreement does not envision the purchase of leased property, shall have the right to privatization of the aforementioned property through purchase if they have submitted the appropriate applications before 1 September 1995 in compliance with the established procedure. Then the agreement for leasing the premises concluded on the day of the privatization shall be valid until its expiration.

Until 1 September 1995, the sale price for purchasing state property of leased enterprises (except premises) shall be determined without taking into account its potential profitability.

Effective 1 September 1995, privatization of leased property of objects of small-scale privatization shall be carried out according to general principles.

The acquisition of objects of small-scale privatization shall be carried out through privatization papers if these papers belong to members of the labor collective of the corresponding object of small-scale privatization and also with monetary funds.

In the event that there are no applications for privatization of objects of Group A for a month after the day of publication of the list for this group, their privatization shall be carried out in compliance with the Edict of the President of Ukraine of 23 June 1995 No. 468/95, "On Measures for Supporting Privatization in 1995."

For objects of Groups B, C, and D

The State Property Fund of Crimea within a month of the day of approval of the list of objects shall form a commission for preparing the objects for privatization, which shall include:

the manager of the enterprise (chairman of the commission);

the head bookkeeper of the privatized enterprise;

a representative of the corresponding state privatization organ;

a representative of the corresponding branch administrative organ.

With privatization of objects of Group D, the commissions must also include representatives of the antimonopoly organ.

Privatized enterprises, except objects of small-scale privatization, shall be subject to transformation into public joint-stock companies.

Within a month of the day of its creation, the commission shall submit for approval to the privatization organ a draft charter of the public joint-stock company created on the basis of the privatized enterprise, the document for appraisal of the property of the object, a draft plan for distribution of shares, and lists of people who, in compliance with existing legislation of Ukraine, shall be given preference in the acquisition of shares in the privatized object.

The State Property Fund of Crimea within a week's time shall approve the charters of public joint-stock companies and documents for appraisal of the property of the objects.

Within three days, the managers of the enterprises shall submit the corresponding founding documents to the organs that provide state registration. No payment for registration shall be collected at this time.

Effective the day of state registration of a public joint-stock company, the assets and liabilities of the object

shall be transferred to the public joint-stock company, which shall be the legal successor of the privatized enterprise.

The duties of the chairman of the board shall be assigned to the manager of the privatized enterprise and shall be carried out by him until the completion of the privatization of state property.

The chairman of the board within a week after state registration of the company shall submit to the Ministry of Finance the necessary documents for registration of the issuance of shares and information about their issuance.

A state duty shall not be collected for registration.

The privatization organ within a week of the day of registration of the issuance of shares and information about their issuance shall approve the plan for distribution of shares and adopt a decision regarding their sale.

100 percent of the shares in public joint-stock companies created on the basis of enterprises of Group B, no less than 70 percent of the shares of public joint-stock companies created on the basis of objects of Group C, and up to 70 percent of shares in joint-stock companies created on the basis of objects of Group D shall be sold with preservation of the benefits envisioned by legislation for workers and managers of the aforementioned companies and also at certificate auctions.

Shares remaining in the possession of the state shall be used to compensate citizens of Ukraine for losses from the devaluation of savings in institutions of the Savings Bank of Ukraine and Ukrposstrakh.

Shares not purchased for privatization certificates remaining in state possession shall be sold for monetary funds at auctions, in competition, and on the stock market.

Certain enterprises, in coordination with the Government of Crimea, may be privatized under individual business plans through the sale of blocks of shares under the conditions of an investment competition with the enlistment of domestic investors.

The proportion of shares temporarily remaining in state possession shall be determined upon privatization of the property of enterprises and organizations subject to privatization in coordination with the Government of Crimea.

The performance of functions for management of shares in state possession during the period of conducting privatization and also shares remaining with the state after the implementation of the plan for distribution of shares in the joint-stock company shall be provided in

compliance with the established procedure by an authorized individual appointed by the State Property Fund of Crimea in coordination with the branch administrative organ.

Preparation and privatization of state property that is leased shall be conducted in compliance with the Decree of the Cabinet of Ministers of Ukraine of 20 May 1995 No. 57-93, "On Privatization of Integrated Property Complexes of State Enterprises and Their Structural Subdivisions That Are Leased."

For objects of Group E

Objects of Group E specified by the Edict of the President of Ukraine of 14 October 1993, No. 456/93, "On Privatization of Objects of Incomplete Construction," shall be privatized in compliance with the given edict and the Edict of the President of Ukraine of 2 June 1995 No. 416/95, "On Changes and Additions to the Edict of the President of Ukraine of 14 October 1993 No. 456/95" and the statute on the procedure for privatization of objects of incomplete construction.

The sale of objects of Group E shall be conducted exclusively through competition or through auction.

Section 3

Prognoses and Assignments for Privatization of State Property

Assignments for privatization.

Based on the prediction of the change in the structure of property in the Republic of Crimea, the following assignments shall be set for 1995:

Group of Objects	Number of objects of privatization		
	Total	including	
		Republic of Crimea	Municipal Property
Group A (Small-scale privatization)	313	68	245
Groups B, C, and D (medium-sized and large enterprises)	48	48	—
including leased enterprises	30	30	—
additionally, objects of the agro-industrial complex	67	67	—

including sovkhoses	48	48	—
Total:	428	183	245

Names of cities,rayons	Number of objects of privatization		
	Total	including	
		Property of Republic of Crimea	Municipal Property
Alushta	27	4	23
Dzhankoy	5	3	2
Yevpatoriya	34	9	25
Kerch	41	10	31
Krasnoperekopsk	13	3	10
Saki	7	4	3
Simferopol	129	75	54
Feodosiya	29	4	25
Yalta	36	6	30
Armyansk	1	1	
Sudak	3	1	2
Bakhchisarayskiy	6	2	4
Belogorskiy	7	5	2
Dzhankoyevskiy	9	7	2
Kirovskiy	8	4	4
Krasnovardayskiy	12	9	3
Krasnoperekopskiy	7	5	2
Leninskiy	11	7	4
Nizhegorodskiy	5	3	2
Pervomayskiy	4	2	2
Razdolnenskiy	4	1	3
Sakskiy	7	6	1
Simferopol'skiy	11	7	4
Sovetskii	4	1	3

Chernomorskiy	8	4	4
TOTAL	428	183	245

Funds from privatization shall go into the republic budget, the nonbudget Privatization Fund of the Republic of Crimea, and the corresponding nonbudget privatization funds and budgets of local councils. Monetary funds received from privatization of state property Of objects of Groups B, C, D, and E (except objects of incomplete construction) shall be used for the following purposes (in percentages):

reimbursement for costs related to privatization	22.6
reimbursement for costs of conducting claim-legal work	0.2
financial support for the privatization program	10.2
post-privatization support for enterprises privatized with the participation of labor collectives	53.8
the creation and functioning of a unified computer information network for state privatization organs	12.6
maintenance of state property not included in the authorized capital of joint-stock companies and remaining on their balance sheets	0.6

The monetary funds received from the sale of objects of small-scale privatization, automotive fueling stations, and objects of incomplete construction financed with centralized funds that are in the possession of the Republic of Crimea and communally (municipally) owned shall be used for the following purposes (in percentages):

reimbursement for costs related to privatization	19.4
reimbursement for costs of conducting claim-legal work	0.2
maintenance of state property not included in the authorized capital of joint-stock companies and remaining on their balance sheets	0.4
deductions into the republic and local budgets	80

reimbursement for costs related to privatization	19.4
including:	
support for programs for social development	20
post-privatization support for enterprises privatized by labor collectives	49
deductions for material incentives for workers of state privatization organs	1
payment to enterprise workers who have not become their buyers	10

Monetary funds received from the privatization of automotive fueling stations, with the exception of expenditures related to their sale, shall be transferred to the republic budget of Crimea and used for measures for social protection of the population.

In the event that an object of incomplete construction is financed with the internal funds of a state enterprise, the enterprise shall receive 100 percent of the monetary funds received from privatization of the object of incomplete construction minus the money spent on conducting privatization.

When an object of incomplete construction is financed with centralized funds, the enterprise shall receive 30 percent of the funds received from the privatization.

If an object of incomplete construction has been financed with the internal funds of the state enterprise and centralized funds, the enterprise shall receive funds in proportion to its contribution to the construction and also 30 percent of the sum that corresponds to centralized capital investment.

The aforementioned funds shall be utilized by state enterprises exclusively for supplementing normed working capital, technical retooling of production, assimilation of new technologies, and the implementation of environmental protection measures.

The remaining monetary funds received from the sale of objects of incomplete construction that have been financed with centralized funds shall be directed to the corresponding republic and local budgets for capital investments.

Funds received from the sale of premises that are communally (municipally) owned shall be transferred into local budgets with the corresponding decisions of the local councils. Funds received from the sale of a patent for the right to lease shall be transferred to the lessor.

Section 4

Organizational Measures for Creating Conditions for Conducting Privatization

In order to make sure that the privatization proceeds as effectively as possible, it is envisioned that the following measures shall be conducted in 1995:

4.1. The State Property Fund of Crimea shall:

complete the creation of a unified system of privatization organs;

in the fourth quarter of this year complete the creation of a unified computer information system for privatization organs;

form a data bank for objects and the legal base of privatization;

regularly inform the population about the course of privatization and the conditions for citizens' participation in the privatization process;

publish a republic information bulletin on privatization each month;

constantly provide methodological guidance for structures participating in the privatization process;

monitor the activity of investment funds and trust companies with privatization papers in compliance with existing provisions;

make suggestions to the Government of Crimea concerning support for privatized enterprises with money from the nonbudget privatization fund;

during the third quarter in conjunction with the Ministry of Economics of Crimea, develop a list of indicators characterizing the privatization process for regular presentation by the State Committee on Statistics of Crimea to the Government and the State Property Fund of Crimea.

4.2. The Government of Crimea shall:

attract foreign investors to participate in the privatization process;

coordinate the work for refining the lists of citizens with the right to receive privatization certificates;

provide methodological guidance concerning questions of privatization.

4.3. The State Property Fund of Crimea in conjunction with the Ministries of Economics, Finance, and Justice and the branch administrative organs shall provide for the development of materials for legal and methodolog-

ical support for privatization in 1995 by the following deadlines:

Normative documents	Deadline for completion and approval
1. Regulations on the nonbudget privatization fund	before 15 August
2. Regulations on administration of portions (shares, stakes) in public joint-stock companies created during the process of privatization and belonging to the state	3d quarter
3. Regulations on joint utilization and service for attached non-residential premises (condominium)	4th quarter
4. Regulations on procedure for privatization of automotive fueling stations that sell fuel and lubricants exclusively to the population	before 15 August

Section 5

Requirements for Local Privatization Programs

5.1. Local privatization programs for 1995 must be developed and approved by local councils of people's deputies within a month of the day of approval of the Program for Privatization of Property of State Enterprises in the Republic of Crimea.

5.2. Local privatization programs must meet the following requirements:

they must not contradict the Program for Privatization in the Republic of Crimea, not place additional restrictions on the privatization of objects, and not expand the list of objects not subject to privatization;

they must provide for the performance of tasks for privatization of the property of state enterprises during 1995 with respect to communally (municipally) owned objects and also quotas for mandatory application of privatization property certificates.

5.3. The local programs must include:

tasks for privatization of communally (municipally) owned property for 1995;

measures for enlisting foreign investors in privatization;

calculation of expenditures on the implementation of these programs and the procedure for reimbursement;

normative amounts of distribution of monetary funds received from privatization;

measures for creating conditions contributing to the process of privatization;

measures for organization of the privatization process.

5.4. Local programs shall be sent to the State Property Fund of Crimea after they have been approved by the corresponding local councils of people's deputies.

Latvia

Flanish Machine Tool Firm Sets Up Subsidiary

*95P50166A Helsinki HUFVUDSTADSBLADET
in Swedish 13 Jul 95 p 6*

[Unattributed Article: "Algol To Latvia"]

[FBIS Translated Text] Oy Algol Ab has established a subsidiary in Riga. The goal is to increase its market share in the Baltic countries. Algol has specialized in marketing machine tools and technical know-how for over a hundred years. The firm has had a subsidiary in Estonia since 1992.

Algol-Latvija SIA will initiate its activity before autumn. The firm will operate as a sales company representing Algol's entire product line, which mainly consists of raw materials, semi-manufactured goods, machine tools, and medical products.

The local warehousing business will concentrate on industrial chemicals, a distribution field in Finland in which Algol has a leading position.

The total shares of the the new company are owned by Algol. The staff will be recruited in Latvia. Alvilis Brants, an engineer, has already been named as subsidiary director.

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